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ABSTRACT

Much of the coal development in eastern Montana has occured in or is proposed for sparsely settled Rosebud County, which includes the Colstrip elementary and high school districts. Between fiscal 1966 and 1975, the population growth resulting from coal activities has brought about a 68% real increase in Rosebud County expenditures. Increase in Colstrip elementary and high school district expenditures is expected to amount to 395% and 177% respectively from fiscal 1966 to 1976. The taxable valuation of county property has also skyrocketed 132% during this period. Nevertheless, some hardships have occurred; schools have sometimes been overcrowded and residents have paid high total property tax mill levies. Although some additional problems may occur if the proposed Colstrip III and IV plants are constructed, expectations are that prosperity is just around the corner for both the county and the school districts. This prediction is made because the tax base will be large enough to keep mill levies low, and 1975 changes in state law allow a portion of the Coal Mines License Tax revenue to be returned directly to the counties from which the coal was mined. This analysis is concerned with the fiscal effects on the school districts and county since coal development began in 1966, with the present Montana tax system and how it affects local governments, and with the probable fiscal impact of the construction of two more coal-fired electrical generating plants. (NEC)

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COLSTRIP, MONTANA: THE FISCAL EFFECTS OF RECENT COAL DEVELOPMENT AND AN EVALUATION OF THE COMMUNITY'S ABILITY TO HANDLE FURTHER EXPANSION

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by

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INTRODUCTION

This paper is an attempt to evaluate the fiscal effects of recent coal development on the unincorporated community of Colstrip, Colstrip School District 19, and Rosebud County, Montana, and to assess the ability of these local governments to handle further expansion.

It is limited strictly to these objectives. The effects of coal development on other communities and school districts in the county are not considered, even though they are affected by what happens in the Colstrip area.

Since Colstrip is an unincorporated community, a company town with no governing body, services are provided either by the firms involved or by Rosebud County. This analysis, therefore, is concerned with what has happened to the Colstrip school district and to Rosebud County since coal development began; with the present Montana tax system and how it affects local governments; and with the probable fiscal impact on the school district and the county of further development: namely the construction of two more coal-fired electrical generating plants.

SUMMARY

Much of the coal development in eastern Montana has occurred in, or is proposed for, sparsely settled Rosebud County, within the boundaries of two school districts--the Colstrip elementary and high school districts. This paper is an attempt to evaluate the fiscal effects of existing and proposed coal development on the county and the two districts. Both are known as Colstrip District 19; the high school district 19 encompasses the elementary district 19 plus three other sparsely-settled elementary districts to the south. The community of Colstrip is unincorporated and its services are provided either by The Montana Power Company, which owns the town, by the county or by the school districts.

In fiscal 1966, the Colstrip school districts were the site of an elementary and a high school, a tiny community of around 300 people, and a number of large ranches; by 1975, some 8 million tons of coal per year were being mined within their borders, two coal-fired generating plants were nearing construction, and over 1,700 workers were employed in coal-related activities. Applications for the construction of two additional power plants at Colstrip (Colstrip Units III and IV) were under consideration by state government. One of the frequently expressed concerns about the development has been the fiscal effects of these activities on the county government and the school districts.

Over the nine-year period betwee fiscal 1966 and fiscal 1975, the population growth resulting from coal activities brought about a 68 percent real increase (after adjustment for inflation) in Rosebud County expenditures for county government purposes. Increases in expenditures by the Colstrip elementary and high school districts (after adjustment for price changes) are

expected to amount to 395 and 177 percent respectively over the ten years between fiscal 1966 and fiscal 1976.

These percentages are startling, but the taxable valuation of property also was skyrocketing: 132 percent in the county, between fiscal 1966 and fiscal 1975, and from a little over $1 million in fiscal 1966 to $22.4 million in fiscal 1976 in the elementary district and from $1.9 million to $24.2 million in the high school district. At the same time, county government became less dependent on the property tax as a result of changes in state tax laws designed to assist local governments and because of federal revenue sharing.

Nevertheless, some hardships did occur. Growing enrollments and insufficient information created problems for the school districts, and their taxpayers. Schools were sometimes overcrowded and residents of the Colstrip districts paid high total property tax mill levies (for state, county, and school purposes) from fiscal 1969 through 1971 as coal production got underway and again in fiscal 1974 and 1975, as the power plants (Colstrip I and II) came under construction. Nevertheless, things might have been much worse. Some other local governments in Montana (including those in neighboring counties and in counties of similar population size throughout the state) appear to have had just as severe fiscal difficulties, but without the prospects of easier times ahead. Our expectations are that, although some additional problems may occur if the proposed Colstrip III and IV plants are constructed, prosperity is just around the corner for both Rosebud County and the Colstrip school district.

We make this statement partly because Montana coal tax legislation, much of it enacted during the 1975 legislative session, will go a long way toward alleviating local fiscal problems related to further coal development, but

mostly because of the additional large increases in property values which the two new plants would create.

The Montana legislature has provided that a portion of the Coal Mines License Tax revenue will be returned directly to the counties from which the coal was mined, to be used for such purposes as the county governments may determine. Additional funds from the license tax will be channeled back to impacted areas in the form of grants from a trust account to assist local governments in providing adequate levels of public services and education. Ten percent of the tax revenue will be used by the State Highway Department for the improvement of highways in coal development areas of the state, until July 1, 1979. Counties also may require industrial firms to prepay property taxes in certain cases, to help local governments over mine and plant construction periods where demands for public services increase rapidly but tax revenues lag behind. Some of these provisions may prove to be more helpful to areas where coal development is just beginning rather than to Rosebud County, which after a period of growth now is beginning to reap the benefits of increased property tax valuations, including gross proceeds of coal mines.

We expect further large increases in property tax valuations if Colstrip III and IV are constructed: 220 percent in Rosebud County (from $41 to $138 million) between fiscal 1976 and fiscal 1980, 281 percent in the Colstrip high school district (from $24 to $92 million), and 300 percent in the elementary school district (from $22 to $90 million).

Our expenditure and revenue estimates for fiscal 1980, when construction employment would be at its peak, indicate that total property tax levies for state, county, and school prposes in Colstrip district 19 may be lower that year than for any year in the 1960s and 1970s.

We conclude that Rosebud County and the Colstrip school districts face no really serious fiscal problems should Colstrip III and IV be constructed.

The tax base will be large enough to keep mill levies low even though county government and the local districts must again provide an increased volume of services. Should temporary problems arise, state assistance will be available in significant amounts.

COAL DEVELOPMENT IN COLSTRIP SINCE 1968

Colstrip is located in sparsely-settled Rosebud County in southeastern Montana. It is an agricultural area with large ranches and a history of declining population. In 1970, the county's population was approximately 6,000. Aside from coal mining between 1920 and the early 1950s and some oil and gas production in the northwestern part of the county; agriculture has been the only economic activity of any importance.

According to the 1970 Census of Population, employment in both the farm and the private nonfarm sectors declined between 1960 and 1970; only increased public employment, mostly federal and Indian-related, kept total employment from falling.

Forsyth, with a population of 1,873 in 1970, is the county seat and the only incorporated town in the county. The Northern Cheyenne Indian Reservation extends across the southern part of Rosebud County. Some 1,800 county residents are Indians and most of them live on the reservation.

Colstrip is an unincorporated community--a company town planned and operated by the Montana Power Company. The first strip mining occurred at Colstrip after World War I, when the Northern Pacific Railroad (now the Burlington Northern) mined coal to fire its locomotives. These activities ceased in the 1950s, and strip mining was not resumed until the late 1960s when Western Energy Company, a subsidiary of the Montana Power Company, began mining on the old NP site (1968) and Peabody Coal Company opened the Big Sky mine, also near Colstrip (1969).

Coal production in the area increased rapidly, exceeding 7 million tons in 1972 and 8 million in 1975 (table 1). Most of the coal produced during those years was for export. Future increases will go largely for power generation at Colstrip. Construction of two generating plants (Colstrip I and II) built jointly by The Montana Power Company and Pacific Power and Light began in 1972; one will be completed in late 1975 and the other in the fall of 1976. Two other plants at Colstrip (Units III and IV) proposed by a consortium of Northwest power companies (including Montana Power) would require additional large amounts of coal. Construction of these plants has not yet been approved by the State of Montana and permission may or may not be granted.

Coal development already has had considerable impact on Rosebud County and on the Colstrip community. Employment in coal-related activities (mining, plant construction, and plant operation) exceeded 1,700 in 1975, compared to only 120 five years earlier (table 2). Population has grown rapidly. The 1970 Census reported 6,032 persons in Rosebud County and 422 in the Colstrip Census County Division. The Division includes considerable area around Colstrip as well as the community itself; The Montana Power Company estimates that 275 persons lived in Colstrip in 1970. Estimates as of July 1974 place county population at 7,700 and Colstrip population at 2,246 (table 3). These estimates may contain considerable error.

Most Colstrip residents are employees of Western Energy or are construction workers employed in Western Energy projects. A good many such workers live outside Colstrip and commute to work. One source indicates that as many as 25 percent of the construction workers employed on Units

Table 1

Coal Production in the Colstrip, Montana, Area
1968-1975

(tons)

Year	Western Energy Company	Peabody Coal Company	Total
1968	150,416		150,416
1969	521,449	163,691	685,140
1970	1,657,737	1,431,956	3,089,693
1971	5,161,390	1,495,222	6,656,612
1972	5,500,775	1,601,179	7,101,954
1973	4,253,781	1,971,643	6,225,424
1974	3,211,859	2,228,525	5,440,384
1975[a]	5,230,000	3,000,000	8,230,000

[a] Estimated

Source: Montana Energy Advisory Council, Coal Development Information Packet, December 1974, and telephone call, July 29, 1975.

Table 2

Employment in Coal-Related Activities
Rosebud County, Montana
1970-1975

Year	Employment
1970	120
1971	140
1972	249
1973	597
1974	1,221
1975	1,724

Note: Includes mining, construction, and generating plant operation.

Source: Western Energy Company. Employment at Peabody Coal estimated by authors.

Table 3

Census Figures and Population Estimates for
Rosebud County and Colstrip, Montana
1970-1974

Year	Rosebud County	Colstrip Census County Division	Colstrip Community
1970	6,032[a]	422[a]	275[c]
1971	6,100[b]		384[c]
1972	6,400[b]		560[c]
1973	6,900[b]		1,278[c]
1974	7,700[b]		2,246[c]

[a] U.S. Bureau of the Census, 1970 Census of Population, Number of Inhabitants, Montana, p. 28-15.

[b] U.S. Bureau of the Census, Federal-State Cooperative Program for Population Estimates, Estimates of the Population of Montana Counties and Metropolitan Areas, Series P-26, No. 19, March 1973, No. 53, February 1974, and No. 109, April 1975. 1974, provisional.

[c] The Montana Power Company, unpublished data.

I and II during the summer months lived outside Rosebud County; and 10 percent of those employed in the winter did so.[1]

THE EFFECTS OF COAL ON LOCAL GOVERNMENT FINANCES

COUNTY FINANCES

Public services have always been limited in Rosebud County; they still are. Nevertheless, the demand for basic services has ballooned as population has increased. Services to Colstrip residents are provided by two governmental units, Rosebud County and Colstrip School District 19. Most basic municipal services--streets, water and sewer facilities, etc.--have been provided by Western Energy and Montana Power Company. Western Energy reports that from 1966 through July 1975 the companies' expenditures for such facilities amounted to approximately $2.9 million. Housing, mobile home parks, a community center, a motel, and a commercial center also have been provided by the company. Expenditures for those facilities, according to Western Energy, have amounted to over $5 million as of July 31, 1975. In addition, the company reports the expenditure of over $800,000 for operation and maintenance of the townsite, not including tax payments and depreciation.

Montana Power Company wishes to dispose of the town properties and currently is making plans to do so. This means that in the future Colstrip may choose to become an incorporated self-governing community with its own budget and taxing power. Up to the present time, however, the fiscal impact of coal development has fallen mostly on Rosebud County and School District 19.

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[1] Energy Planning Division, Montana State Department of Natural Resources and Conservation, Draft Environmental Impact Statement on Colstrip Electric Generating Units III and IV, 500 Kilovolt Transmission Lines and Associated Facilities, Volume One, Summary, November 1974, p. 217. Quoting Western Energy Company.

Operating Costs

In describing the effects of coal development on local government expenditures, we have chosen fiscal 1966 as the base year. Coal development had not yet begun in 1965-66; Colstrip was the site of a school and a few residents; and, except for declining oil production in the northwestern part of the county, agriculture was almost the only economic activity. Nothing much ever happened in Rosebud County. Total expenditures for county operating purposes that year were just under $450,000. By fiscal 1975, they had increased 192 percent, amounting to over $1.3 million (table 4).

While population growth related to coal development certainly influenced these expenditures--it was the only new activity in the county, it is well to remember that another factor also was at work: inflation. The U.S. Department of Commerce's implicit price deflator for state and local government purchases of goods and services went from 123.5 to 215.0 between calendar 1965 and 1974 (1958 = 100), for an increase of 74 percent. We don't know whether prices and wages rose more or less rapidly in Rosebud County than in the United States as a whole, but the deflated expenditure figures in column 2 of table 4 give a more accurate picture of the real increase in the volume of services provided by the county government. Stated in 1958 dollars, as measured by the implicit price deflator for state and local government expenditures, Rosebud County's spending for county purposes rose something like 68 percent between fiscal 1966 and fiscal 1974, as opposed to the 192 percent increase indicated by current dollar figures.[2]

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[2]The taxable valuation figures in table 3 also reflect inflated values, although assessed values of real property frequently fail to reflect the full extent of rising prices.

Table 4

Comparison of Expenditures for County Purposes in Current and 1958 Dollars, Rosebud County, Montana
Fiscal Years 1966-1975

Fiscal Year	Expenditures in Current Dollars	Expenditures in 1958 Dollars
1965-66	$ 449,245	$363,761
1966-67	501,746	387,748
1967-68	540,455	396,228
1968-69	573,883	396,328
1969-70	593,474	386,376
1970-71	705,061	428,348
1971-72	789,422	449,046
1972-73	993,569	540,865
1973-74	989,064	506,952
1974-75	1,312,058	610,260
Percent increase, 1965-66 to 1974-75	192	68

Note: Expenditures in 1958 dollars based on U.S. Department of Commerce, implicit price deflator for state and local government purchases of goods and services.

Source: County of Rosebud, County Clerk's Annual Report to State Examiner, Fiscal Years Ending June 30, 1966-June 30, 1975.

The figures quoted above, and presented in tables 4 and 5, exclude expenditures for education, although they include the office of the county superintendent of schools. Expenditures for education in the Colstrip school district will be discussed later.

It also should be noted that many of the services usually provided by county government are provided for the Indian population on the Northern Cheyenne Reservation by the Bureau of Indian Affairs and/or the tribal government. There are approximately 1,800 Indian residents of Rosebud County.

Table 5 breaks county expenditures down into five major categories for the years since fiscal 1966. Definitions of the categories are included in the table. The figures are taken from annual reports filed with the State Examiner by the county clerk. Occasionally, there were problems of allocation or we were not quite sure what a figure represented. Nevertheless, we think the breakdown gives a reasonably accurate picture of how spending for various purposes has increased since 1966. We have not converted them to 1958 dollars because the price deflator would not be appropriate to individual expenditure categories. Nevertheless, the influence of inflation on the figures should be kept in mind.

The most rapidly increasing category of expenditures since fiscal 1966 has been law enforcement, which grew 382 percent over the nine-year period. County spending for health and welfare, which might also have been expected to increase very rapidly, was up only 118 percent. The bulk of welfare expenditures, of course, come from state and federal funds and these expenditures are described later. County road and bridge expenditures rose 164 percent while general government spending was up just 104 percent. Spending for agricultural purposes (extension, weed control, etc.) increased 178 percent, suggesting that farmers and ranchers continue to exert influence on county affairs.

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In terms of dollars, two categories--law enforcement and roads and bridges--accounted for more than half (52 percent) of the total increase in county operating expenditures.

In the next few paragraphs we take a closer look at spending for law enforcement, health and welfare services, and roads and bridges--the service areas where the impact of population growth might be expected to be the greatest.

Law enforcement. Rapid population growth frequently is accompanied by increased crime, delinquency, and other anti-social behavior. This has been true in Rosebud County and Colstrip. Whether the incidence of such behavior is unusually high is a matter of speculation and to our knowledge has not been well documented. One recent report cites 129 arrests (7 felonies, 122 misdemeanors) in 1972 and 835 arrests (13 felonies, 822 misdemeanors) in 1973.[3]

In any event, county expenditures for law enforcement showed a very large percentage increase (382 percent) between fiscal 1966 and fiscal 1974. Spending rose from a modest $46,645 to almost $225,000 in fiscal 1974. These figures include expenditures by the county attorney, district court, and justices of the peace, as well as the sheriff's office and other law enforcement activities. They do not, of course, include the tribal law enforcement expenditures on the Northern Cheyenne Reservation.

In Colstrip, law enforcement is provided by two deputies from the county sheriff's office. Law enforcement officers work under peculiar handicaps in Colstrip. Because the community is unincorporated there are no town ordinances to be enforced; however, county and state regulations and laws do apply.

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[3] Montana Energy Advisory Council, Coal Development Information Packet, Supplement 1, July 1975, p. 5.

Overall law enforcement services in Rosebud County are believed to be adequate, although the sheriff's department needs larger office facilities and a jail contiguous to its offices (presently the offices and jail are in different buildings). The ten officers in the sheriff's department plus eleven members of the Northern Cheyenne Tribal Police Force and two state highway patrolmen more than meet adequacy standards of one officer per 500 population.[4]

The special problem of legal jurisdiction in Colstrip, plus the fact that only two sheriff's deputies are stationed there (although its population is approximately 2,200), point to possible inadequacies in law enforcement in that community.

Health and welfare.[5] Although there has been much discussion as to the effect of rapid population growth on health and welfare expenditures, the effect on county spending, as we have already noted, has been quite modest--with an increase of $70,800 or 118 percent between fiscal 1966 and fiscal 1975 (table 5).

Public health services traditionally have been limited in rural areas such as Rosebud County. They appear to be inadequate today. The county owns and operates a new 26-bed hospital with a 39-bed nursing wing at Forsyth. It serves the general public and is the only hospital in the county, except the one on the reservation. There is one county-operated

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[4]Energy Planning Division, Montana State Department of Natural Resources and Conservation, Draft Environmental Impact Statement on Colstrip Electric Generating Units III and IV, 500 Kilovolt Transmission Lines and Associated Facilities, Volume Three-B, Power Plan, November 1974, pp. 923, 925, and 936-7.

[5]Much of this section is based on Montana Agricultural Experiment Station, Montana State University, Anticipated Effects of Major Coal Development on Public Services, Costs and Revenues in Six Selected Counties, Final Report for the Northern Great Plains Resources Program, Research Report 82, April 1975.

ambulance to service the entire county. The county public health program works with the schools and provides immunization, pre-natal care, and home health visits to the elderly on a limited basis. One full-time mental health counselor services the county from Forsyth. Again, a good many health and welfare services for Indian residents are provided by federal government or tribal agencies.

Problems with water supplies and sewage systems have occurred in Forsyth and Colstrip. The Colstrip water problems have been corrected and a sewage system installed, financed by a federal grant and a county special improvement district; in Forsyth, there is a possibility of health problems as a result of inadequate facilities.[6]

Rosebud and neighboring Treasure County operate a combined welfare department, located in Forsyth. The usual programs--including general relief, aid to dependent children, Medicaid and food stamps--are provided. The counties pay only a small part of the total costs; most of the funding comes through the Montana Department of Social and Rehabilitation Services from state and federal sources. Except for a recent strike period, when some residents used food stamps, Colstrip has presented a minimum of welfare problems.[7]

Changes in programs and in benefits make a comparison of total welfare payments inappropriate for our purposes. We have chosen to use the number of families in the Aid to Dependent Children program as an indicator of

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[6] Ibid.

[7] Montana Department of Intergovernmental Relations (now Department of Community Affairs), Research and Information Division, The Economic Impact of Proposed Colstrip Units I.I and IV on the Rosebud County Economy, August 1974, p. 77.

changes in welfare needs. Table 6 shows that the caseload has increased since fiscal 1966: in fiscal 1971 and again in 1975--both recession years, the number of Rosebud County families receiving aid was approximately 75 percent higher than in 1966. It is interesting to note the moderate increase in the caseload during the years of construction activity (1973-1975) and to compare the increase between fiscal 1966 and 1975 in the number of families receiving aid--75 percent--to the state figure of 253 percent.

A word about private medical and health services is warranted. There is no full-time physician or dentist in Colstrip and medical facilities were described as "entirely inadequate" early in 1975.[8] Since then, a clinic facility has been opened in the new commercial center, with a full-time nurse and a doctor from Miles City there one day a week. Presumably, the doctor's time in the clinic can be expanded if demand increases. Western Energy also maintains an ambulance and a first-aid station, as does the major contractor for the generating plants. Again, limited medical facilities are not unusual in small rural counties and isolated communities. Rosebud County residents traditionally have gone outside the county for much of their medical treatment. New residents from other areas may demand more adequate services closer to home and local governments could be called upon to help provide them.

Roads and bridges. County spending on roads and bridges increased $235,000 or 164 percent between fiscal 1966 and 1975. Although other kinds of expenditures showed larger percentage increases, the fact that roads and bridges constitute the largest single spending category meant that they

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[8] Montana Agricultural Experiment Station, op. cit., p. 19.

Table 6

Average Number of Families Receiving Aid to Dependent Children Assistance in Rosebud County
Fiscal Years 1966-1975

Fiscal Year	Average Number of Families
1965-66	80
1966-67	85
1967-68	94
1968-69	108
1969-70	122
1970-71	140
1971-72	112
1972-73	116
1973-74	127
1974-75[a]	138

[a]Based on eleven months.

Source: State of Montana, Department of Social and Rehabilitation Services.

accounted for a good share (about 30 percent) of the total increase in spending. State government, of course, is responsible for state highways in the county (with the help of federal funds) and roads in Colstrip have been constructed and maintained by Western Energy and Montana Power.

There are not many public roads in large, sparsely-settled Rosebud County, and most of them were not constructed to accommodate the kind of traffic they now serve. Roads in the area are described as in terrible condition. State highway 315 from Colstrip to I-94 has borne the brunt of the effect of development at Colstrip and needs rebuilding. The 1975 Coal Mines License Tax law provides that 10 percent of the tax collections through June 30, 1979, will go into a coal area highway improvement account. During the 1975-77 biennium, some $6.6 million is anticipated for the account; in addition, federal matching funds are being requested. The State Highway Department currently is making plans for the improvement of primary and secondary highways in the coal area, including, of course, Rosebud County.

Capital Expenditures

Major capital expenditures by the county since 1966 include a new hospital, a new library, a grandstand, and airport improvements. Only the hospital, constructed in 1973 and 1974 at a cost of $1.3 million, required long-term financing. Although a good share of the cost was paid by the federal government, bonds in the amount of $658,388 were sold by the county to finance its share of the cost.

The library (1971) and the airport improvements (1975) were financed through grants; the grandstand (1975) was paid for with revenue sharing funds.

As of June 30, 1974, Rosebud County had $559,355 in long-term indebtedness; the entire amount was owed on the hospital. Back in 1966, the county had been almost free of debt, with $33,433 still owing on the nursing home.[9]

Tax Revenue

Local governments in Montana are dependent upon property for tax revenue. In recent years, however, counties have become less dependent upon tax revenues for operating funds. Rosebud County in fiscal 1975 had $924,589 available in property tax revenue and $1,430,725 in what the annual report calls "miscellaneous revenue." Table 7 lists the county's tax and nontax revenue for fiscal 1975. This was the first year the county shared in the state coal mines license tax, receiving 3 cents per ton of coal mined. The tax contributed $216,000 to the county treasury and will continue to be an important source of revenue. In the discussion of tax revenues that follows, it is important to keep in mind that state aid, such as sharing of coal mines license tax receipts, and federal aid in the form of grants and revenue sharing have greatly reduced the burden on the property tax.

According to state law, taxable property includes real estate and personal property, including agricultural products, livestock, business inventories, farm and industrial machinery. Mining machinery, structures, and appurtenances are taxed, with taxable valuation specified as 30 percent of "full and true value," which in practice amounts to 40 percent of estimated market value. Because of the difficulty of valuing mineral

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[9]Rosebud County, County Clerk's Annual Report to State Examiner, Fiscal Year Ending June 30, 1975, p. 29, and State of Montana, Bienniel Report of the Montana State Board of Equalization for the Period July 1, 1964 to June 30, 1966, p. 128.

Table 7

Revenue for County Purposes
Rosebud County, Montana
Fiscal Year 1975

Source	Amount
Property tax	$ 924,589
Coal mines license tax	216,185
Fees and charges	26,511
Licenses and permits	2,479
Fines, forfeitures, penalties	25,419
Gifts and grants[a]	472,238
Federal revenue sharing[b]	134,652
Interest and penalties	161,972
Collections and commercial revenue	17,851
All other[c]	373,418
Total[d]	$2,355,314

Note: Total figure exceeds expenditure figure for 1975 in table 5 by approximately $1 million because it includes over $0.5 million in revenues used for capital expenditures and not shown in table 5 and because the county's cash balance increased by almost $0.5 million from July 1, 1974 to June 30, 1975.

[a] Includes $382,788 for airport and $55,494 for hospital building.

[b] Includes $107,348 for grandstand.

[c] Includes auto registration, land rentals and royalties, offsets to outlay and miscellaneous sources of revenue.

[d] Excludes refunds, which also are excluded in tables 4 and 5.

Source: Rosebud County, County Clerk's Report to State Examiner, Fiscal Year Ending June 30, 1975.

bearing property, those properties have traditionally been taxed on their net proceeds, defined as the annual gross value of the product less certain deductions plus the price paid the U.S. government for the mineral property. Royalties from mineral production also have been taxable under property tax laws. The taxable value of net proceeds and royalties was 100 percent of full and true value.[10] Problems have occurred in estimating revenue from the net proceeds tax, which allowed a deduction for the costs of doing business, including land reclamation expenses. The 1975 legislature changed the net proceeds tax to a gross proceeds tax; the new provisions are discussed later in this report.

Changes in taxable valuation. Agriculture has always been the major economic activity, in terms of employment and personal income, in Rosebud County. Nevertheless, in the early 1960s, county government was heavily dependent on the oil industry for property tax revenue. In fiscal 1962 and 1963, the taxable valuation of net proceeds and royalties from oil and gas exceeded the total taxable valuation of all real and personal property (except public utilities) in the county (table 8).

The resulting sizable tax payments by the oil industry came with few liabilities: the handful of oil workers in the county required little in the way of public services. After 1962-63, however, the taxable valuation of net proceeds and royalties began to decline; they fell from $6.6 million that year to $0.7 million in 1969-70, and total county valuation fell 29 percent, from $14.8 to $10.6 million. Recently, new oil discoveries in the county have resulted in large increases in net proceeds valuation; they shot up to $9.3 million in fiscal 1976 (table 8).

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[10] Report of the State Department of Revenue to the Governor and Members of the Forty-Fourth Legislative Assembly of the State of Montana for the period July 1, 1972 to June 30, 1974, p. 17.

Table 8

Taxable Valuation of Rosebud County, Montana
Fiscal Years 1961-1976

Fiscal Year	All Property Except Utilities	Local Property of Public Utilities	Public Utilities Allocated by State	Net Proceeds and Royalties				Total Taxable Valuation
				Oil and Gas	Coal	Other	Total	
1960-61	$ 6,032,814	$ 108,505	$2,773,507	$5,428,935	$ --	$ --	$ 5,428,935	$14,343,761
1961-62	5,479,465	295,836	2,711,710	6,298,188	--	--	6,298,188	14,785,199
1962-63	5,328,902	291,764	2,621,021	6,557,293	--	--	6,557,293	14,798,980
1963-64	5,689,207	282,090	2,589,337	4,919,363	--	--	4,919,363	13,479,997
1964-65	6,240,975	103,445	2,474,887	3,574,970	--	--	3,574,970	12,394,277
1965-66	6,272,512	73,286	2,489,384	2,217,772	--	--	2,217,772	11,052,954
1966-67	6,427,344	75,729	2,577,366	1,493,904	--	--	1,493,904	10,574,343
1967-68	6,778,912	80,485	2,634,274	1,369,815	--	--	1,369,815	10,863,486
1968-69	6,812,007	76,678	2,466,929	1,201,352	--	--	1,201,352	10,556,966
1969-70	7,337,474	95,741	2,380,931	652,883	24,292	65,109	745,284	10,559,430
1970-71	8,184,020	109,766	2,229,478	1,441,034	544,517	6,615	1,992,166	12,515,430
1971-72	8,506,527	114,974	2,427,759	766,706	1,888,016	5,688	2,660,410	13,709,670
1972-73	8,990,014	136,240	2,357,860	1,542,723	5,094,920	--	6,637,643	18,121,757
1973-74	10,244,216	428,493	2,341,949	1,858,352	4,739,983	--	6,598,335	19,612,993
1974-75	13,145,212	3,671,729	2,205,543	3,779,732	2,864,080	--	6,643,812	25,666,296
1975-76	15,346,060	13,829,219	2,173,598	9,290,878	2,259,429	58,811	11,609,118	42,957,995

Sources: State of Montana, Biennial Reports of the Montana State Board of Equalization for the Periods July 1, 1960 to June 30, 1962 through July 1, 1970 to June 30, 1972. State of Montana, Report of the State Department of Revenue for the period July 1, 1972 to June 30, 1974. State of Montana, Department of Revenue, unpublished data (1975).

Coal development began to have a substantial effect on taxable valuation in the county about 1972. Table 8 shows the growth in real and personal property valuations between fiscal 1969 and 1970, the low point, and fiscal 1976. The increase amounted to about $32 million or over 300 percent. Approximately $8.6 million represented an increase in net proceeds and royalties from oil and gas. Most of the remainder is attributable to coal development activities, including the construction of the two generating plants. Their valuation is included in the column headed "local property of public utilities" (table 8). The first column of table 8, "all property except utilities" reflects new construction at Colstrip and elsewhere as a result of coal development.

Mill levies. We have seen that property tax valuation increased substantially between fiscal 1966 and fiscal 1976, and that expenditure for county purposes also grew rapidly. What happened to property tax levies and how did the typical taxpayer fare with respect to the costs of county government?

Table 9 lists all the mill levies for state, county, and school purposes that would have been paid by a resident of the Colstrip school district and we shall be referring to it frequently. For now, we are concerned only with the countywide levies for county government purposes.

The countywide mill levy for county purposes (column 4) was quite low in the early sixties, when taxable value was high. Levies began to increase substantially in the mid-sixties and continued to rise as taxable values fell (table 8) and county expenditures increased (table 5). The highest rates occurred in fiscal 1969, when taxable valuation was at a historic low, and in fiscal 1972 (column 4, table 9) as county operating expenditures rose in response to increased demands and rising costs and the mill levy for the hospital bonds was added to the load. Although taxable valuation had begun to increase in fiscal 1971, in fiscal 1972 it still was lower than it had

Table 9

Property Tax Mill Levies Paid by Taxpayers in Colstrip Elementary and High School District 19 Fiscal Years 1961-1976

		Countywide Levies							District 19						
									High School		Elementary				
Fiscal Year	State Levy (1)	County Operations[a] (2)	County Debt Retirement (3)	Total County Purposes Levy (4)	High School (5)	General School (6)	Total County School Levy (7)	Total County Levy (8)	Operating[b] (9)	Debt Retirement (10)	Operating[b] (11)	Debt Retirement (12)	Total District School Levy (13)	Total County and District Levies (14)	Total State, County and District Levies (15)
1960-61	8.00	22.76	.84	23.60	9.85	10.00	19.85	43.45	7.27	--	16.68	--	23.95	67.40	75.40
1961-62	9.00	21.49	.81	22.30	9.07	10.00	19.07	41.37	6.85	--	18.42	--	25.27	66.64	75.64
1962-63	8.00	16.75	.91	17.66	9.72	10.00	19.72	37.38	11.28	--	27.69	--	38.97	76.35	84.35
1963-64	8.25	21.89	1.00	22.89	14.84	18.53	33.37	56.26	2.08	--	18.36	--	20.45	76.71	84.96
1964-65	6.35	28.38	.08	28.46	11.91	17.88	29.79	58.24	5.39	--	15.22	--	20.62	78.86	85.21
1965-66	9.00	36.13	--	36.13	15.51	24.00	39.51	75.64	1.65	--	20.30	--	21.95	97.59	106.59
1966-67	5.50	37.13	.74	37.87	14.29	23.23	37.52	75.40	2.83	9.87	18.38	6.42	37.50	112.90	118.40
1967-68	8.25	38.63	.74	39.37	19.33	27.49	46.82	86.19	3.98	9.48	21.17	5.09	39.72	125.91	134.16
1968-69	8.05	49.10	.76	49.86	18.38	25.47	43.85	93.70	9.53	10.29	15.79	5.64	41.25	134.95	143.00
1969-70	8.20	47.38	.95	48.33	19.13	27.83	46.96	95.29	7.21	8.80	12.07	4.53	32.61	127.90	136.10
1970-71	8.30	46.66	.25	46.91	18.84	28.95	47.79	94.70	10.00	7.62	14.04	3.04	34.70	129.40	137.70
1971-72	6.10	49.08	5.47	54.55	18.19	27.04	45.23	99.78	2.62	4.11	10.24	1.63	18.60	118.38	124.48
1972-73	6.00	42.00	3.44	45.44	16.84	27.14	43.98	89.42	6.60	2.28	9.04	.88	18.80	108.22	114.22
1973-74	21.00[c]	42.90	3.03	45.93	18.06	29.21	47.27	93.20	6.59	1.94	11.23	.68	20.44	113.64	134.64
1974-75	6.00	32.12	2.26	34.38	17.34	30.46	47.80	82.18	16.23	1.51	22.87	.52	41.13	123.31	129.31
1975-76	9.50[d]	22.85	1.20	24.05	18.14	28.48	46.62	70.67	8.20	.74	8.98	.23	18.15	88.82	93.32

Note: Details do not always add because of rounding.

[a] Includes levies for general fund, road, bridge, poor fund, fair, library, airport, weed control, cemetery, and museum.

[b] Includes levies for general fund, transportation, bus reserve, building reserve, and adult education.

[c] Includes statewide permissive levy of 4.20 mills for high schools and 7.80 mills for elementary schools.

[d] Includes statewide permissive levy of 1.5 mills for high schools and 2.4 mills for elementary schools.

Source: Montana Taxpayers Association, Montana Property Tax Mill Levies, 1965-66 to 1974-75, and Rosebud County Treasurer and State Department of Public Instruction, unpublished data for 1975-76.

Table 10

Actual Mill Levies and Legal Maximum
for Various County Government Funds
Rosebud County, Fiscal 1972 and
Fiscal 1976

Fund	Fiscal Year 1971-72		Fiscal Year 1975-76	
	Actual Mill Levy	Legal Maximum Levy[a]	Actual Mill Levy	Legal Maximum Levy[a]
General	18.56	24.00	2.95	25.00
Road	13.40	15.00	12.00	12.00
Bridge	5.00	5.00	1.43	3.00
Poor	5.23	17.00	2.62	13.50
Fair	1.23	1.50	.81	1.50
Library	1.61	3.00	.82	3.00
Airport	.27	2.00	.22	2.00
Weed	2.00	2.00	.81	2.00
Cemetery	.47	2.00	.16	2.00
Museum	.36	0.50	.14	1.00
Senior citizens (recreation)	--	1.00	.88	1.00

[a]Legal maximums for class 5 counties, $10 million to $15 million taxable valuation. Rosebud was a class 5 county in 1971-72.

[b]Legal maximums for class 1 and 2 counties. Class 1 counties have over $50 million in taxable valuation; class 2 counties, $30 million to $50 million. Rosebud was a class 2 county in 1975-76; by 1976-77 it should be a class 1 county.

Sources: Montana Taxpayers Association, Montana Property Tax Mill Levies 1971-72, p. 56 and Tax Laws of Montana with Amendments of 1975 Legislature, pp. 9-22.

been in the early 1960s (table 8). During the next four years, fiscal 1973 through fiscal 1976, more property came onto the tax rolls, more nontax revenue became available from state and federal sources, and receipts from the coal mines license tax began to come in. Mill levies for county purposes declined substantially in both fiscal 1975 and 1976. The 24-mill levy in fiscal 1976 is the lowest in twelve years (column 4, table 9).

State laws set maximums on the mill levies counties may impose for various purposes. For the most part, levies in Rosebud County have been well below the maximums. Two exceptions are the levies for bridges and for weed control. Table 10 compares maximum levies permitted by state law with actual levies in 1971-72, when the highest levies in recent years were imposed in Rosebud County.

Rosebud County mill levies for debt retirement represent payments on the county-financed nursing home in the sixties and the new hospital beginning in fiscal 1972. Plans for the hospital were underway before the extent of the coal development became clear and do not represent a response to the increased demands of new residents.[11]

Conclusions

We might summarize this discussion by saying that expenditures for county purposes (excluding education) appear not to have greatly strained Rosebud County's financial resources thus far.

Indeed, between fiscal 1966 (pre-coal) and fiscal 1975 (the latest year for which figures for all counties are available), Rosebud County taxpayers fared better with respect to changes in county government levies than did a good many other Montanans in neighboring counties or in similar sized counties. Keeping in mind that differences in assessment practices and level of

[11] Montana Department of Intergovernmental Relations (now Department of Community Affairs), Research and Information Division, op. cit., p. 87.

services among counties also affect mill levies, the figures in tables 11 and 12 present some interesting comparisons. In Multi-County District 3, consisting of six southeastern counties and established by state government for planning purposes, two counties, Rosebud and Powder River, reported large increases in total taxable valuation. Both also enjoyed declines in mill levies for county government purposes (table 11). Among eleven Montana counties with populations ranging from 5,000 to 7,000 in 1970, Rosebud reported the largest increase in taxable valuation and was one of three counties where levies for county government declined (table 12).

Of the 56 Montana counties, 48 had higher mill levies for county purposes including debt retirement than did Rosebud in fiscal 1975.[12] That is, in 48 counties the levy exceeded the 34.38 mills required in Rosebud County (column 4, table 9).

The substantial reduction in mill levies in Rosebud County between fiscal 1975 and 1976 (from 34.38 to 24.05) no doubt put the county in a more favorable position in the latter year. Unfortunately, 1975-76 levies for all counties are not available at time of writing.

We have already noted that levies for various purposes seldom approach the legal limits; some permitted levies are not assessed at all, including levies for planning purposes. It is interesting that the first formal county planning expenditures reported in the annual reports of the County Clerk were in 1973-74--a modest $9,000 or so, half of which came from federal revenue sharing. It may be that low levies and limited county services reflect the desires of the majority of the voters as perceived by county government officials.

The above evaluation says nothing about changes in quality of county government services; such changes are not easily quantified. A fair judgment seems to be that services provided by county government remain limited.

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[12] Montana Taxpayers Association, Montana Property Taxation 1975, pp. 11-12.

Table 11

A Comparison of Total Taxable Valuation and of Mill Levies
for County Government Purposes in Montana Multi-County District 3
Fiscal Years 1966 and 1975

County	Taxable Valuation			Mill Levies for County Purposes		
	1965-66	1974-75	Percent Change	1965-66	1974-75	Percent Change
Rosebud	$11,052,954	$25,666,296	132.2	36.13	34.38	- 4.8
Treasure	2,284,193	3,479,830	52.3	32.74	46.00	40.5
Custer	12,612,175	17,871,987	41.7	40.87	44.90	10.0
Fallon	17,445,309	25,638,391	47.0	23.38	30.49	30.4
Powder River	4,263,674	35,123,433	723.8	38.40	28.75	-25.1
Carter	4,426,118	7,583,625	71.3	47.38	50.40	- 6.4

Note: Levies include debt retirement, except countywide public school debt.

Sources: State of Montana, Biennial Report of the Montana State Board of Equalization for the period July 1, 1964 through June 30, 1966. State of Montana, Report of the State Department of Revenue for the period July 1, 1972 to June 30, 1974. Montana Taxpayers Association, Montana Property Taxation, 1967 and 1975.

Table 12

A Comparison of Total Taxable Valuation and of Mill Levies
for County Government Purposes in Rosebud County and other Montana Counties
with Populations between 5,000 and 7,000
Fiscal Years 1966 and 1975

County	1970 Population	Taxable Valuation			Mill Levies for County Purposes		
		1965-66	1974-75	Percent Change	1965-66	1974-75	Percent Change
Rosebud	6,032	$ 11,052,954	$ 25,666,296	132.2	36.13	34.38	-4.8
Blaine	6,727	8,314,968	16,245,573	95.4	51.55	45.31	-12.1
Chouteau	6,473	16,139,788	23,503,886	45.6	42.13	35.01	-16.9
Jefferson	5,230	6,032,186	8,534,055	41.5	32.32	35.12	8.7
Madison	5,014	7,412,447	14,961,625	101.8	41.98	50.32	19.9
Phillips	5,386	9,875,458	13,235,485	34.0	42.19	48.37	14.6
Pondera	6,611	11,945,265	16,775,789	40.4	41.14	52.45	27.5
Powell	6,660	8,037,294	9,095,807	13.2	40.12	43.33	8.0
Sheridan	5,779	9,599,631	13,941,997	45.2	34.40	43.75	27.2
Teton	6,116	12,326,341	16,104,973	30.7	36.73	56.52	53.9
Toole	5,835	13,420,794	18,186,077	35.5	38.31	51.73	35.0
All counties in Montana		$785,065,495	$1,073,385,705	36.7	36.13	42.57	17.8

Note: Levies include debt retirement except countywide public school debt.

Sources: State of Montana, Biennial Report of the Montana State Board of Equalization for the period July 1, 1972 through June 30, 1966. State of Montana, Report of the State Department of Revenue for the period July 1, 1972 to June 30, 1974. Montana Taxpayers Association, Montana Property Taxation, 1967 and 1975.

A few new services, such as senior citizens' programs, have been added; some, such as county roads, have declined in quality but most probably are as adequate as they were pre-coal. It is worth noting that natives of the area do not necessarily regard minimal government and social services as a hardship. Newer residents may exert more pressure for expanded services.

SCHOOL FINANCES

The preceding discussion excluded education, first because it is a major government expenditure deserving of special attention and second because costs of education vary from one school district to another within a county, and we are particularly concerned with the Colstrip districts. The Colstrip elementary district 19 encompasses an area approximately 25 miles wide and 25 miles long. High school district 19 includes that area plus three sparsely-settled elementary districts to the south. The high school district includes a portion of the Northern Cheyenne Indian Reservation. A good many of the Indian children attend a mission school at Ashland. Both the elementary and the high school for district 19 are located in the community of Colstrip. The Western Energy and Peabody Company mines and Western Energy's Colstrip plants I and II all lie within the borders of both school districts.

The first significant increase in coal-related school enrollment in the two Colstrip districts occurred in the 1971-72 school year and the number of students has risen steadily since then (table 13). Fall enrollment went from 86 on October 1, 1965, to 480 as of September 4, 1975, in the elementary school and from 115 to 219 in the high school.

Expenditures

The result of increasing enrollments, of course, has been large increases in school expenditures. Tables 14 and 15 show expenditures by the

Table 13

Elementary and High School
Enrollment in the Colstrip Schools
Fall 1961 to Fall 1975

(Enrollment as of October 1)

Year	Elementary	High School	Total
1961	72	70	142
1962	70	73	143
1963	77	78	155
1964	66	100	166
1965	86	115	201
1966	71	97	168
1967	72	99	171
1968	72	113	185
1969	75	95	170
1970	89	98	187
1971	126	110	236
1972	141	128	269
1973	178	162	340
1974	277	186	463
1975[a]	480	219	699

[a]Enrollment as of September 4, 1975. Some additional students anticipated by October 1.

Source: Montana Superintendent of Public Instruction, Montana Educational Directory, 1961-62 - 1973-74, and telephone call to Colstrip Public Schools, September 1975.

Table 14

Expenditures by Elementary School District 19, Colstrip
Fiscal Years 1966-1974 and Budget for Fiscal 1976

	Expenditures									Budget
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1975-76
Administration and instruction	27,971	29,909	33,246	NA	38,611	40,527	53,464	81,310	118,398	319,102
Supportive services[a]	267	484	597	NA	608	649	1,255	1,787	6,452	31,021
Plant operation and maintenance	7,333	9,502	9,362	NA	9,204	9,130	10,796	13,109	18,638	48,776
Other current charges	2,046	4,097	3,478	NA	3,936	4,462	5,944	7,191	3,203	10,377
Capital outlay[b]	98	917	337	NA	0	1,529	500	12,010	46,583	9,300
Total general fund expenditures	37,714	44,910	47,020	45,080	52,359	56,297	71,959	115,409	193,275	418,576
Transportation	7,914	6,700	7,956	9,787	7,683	10,955	8,888	12,199	15,580	16,967
Bus depreciation reserve	0	0	0	0	15,910	0	0	0	0	1,875
School lunch program	6,856	6,546	6,540	8,184	9,291	11,052	11,637	12,876	21,719	---
Retirement fund[c]	844	996	1,115	1,127	1,476	1,506	2,280	3,294	12,697	39,138
Debt service	0	3,570	5,794	5,650	6,505	7,982	3,343	8,348	2,240	5,114
Federal programs reported separately	0	1,877	5,471	NA	2,463	0	0	0	0	---
Total expenditures of current funds	53,328	64,599	73,896	69,828	95,687	87,792	98,107	152,126	245,511	481,670
Adjusted for price changes[d]	*43,180*	*49,922*	*54,176*	*48,223*	*62,296*	*53,337*	*55,806*	*82,812*	*125,839*	*213,631*
Building fund expenditures	0	65,593	5,243	0	0	0	0	0	0	0

Note: Budget figures for 1975-76 are not strictly comparable with expenditure figures for earlier years. Totals do not always add because of rounding.

[a]Library, school food services, health, attendance, student body, and other supportive services.

[b]New equipment, other; expenditures from general fund only, no bonds issued.

[c]Includes Social Security beginning 1973-74.

[d]Expenditures in 1958 dollars based on U.S. Department of Commerce, implicit price deflator for state and local government purchases of goods and services. 1975-76 estimated.

Source: Annual Reports of School Trustees to County Superintendent of Schools, 1965-66 to 1973-74; Budget and Application for Tax Levies for year beginning July 1, 1975.

Table 15

Expenditures by High School District 19, Colstrip
Fiscal Years 1966-1974 and Budget for Fiscal 1976

	Expenditures									Budget
	1965-66	1966-67	1967-68	1968-69	1969-70	1970-71	1971-72	1972-73	1973-74	1975-76
Administration and instruction	54,565	63,038	61,776	NA	73,812	80,745	88,637	105,307	137,891	264,248
Supportive services[a]	1,740	2,941	1,787	NA	4,066	4,603	5,693	9,303	7,089	34,382
Plant operation and maintenance	13,909	14,276	13,870	NA	14,283	14,117	20,702	16,151	16,812	42,520
Other current charges	3,088	5,041	4,785	NA	6,057	6,978	8,008	8,992	3,697	10,548
Capital outlay[b]	456	3,147	588	NA	0	0	1,000	21,270	40,551	12,559
Total general fund expenditures	73,758	88,444	82,808	92,178	98,219	106,443	124,042	161,023	206,041	364,257
Transportation	13,607	15,123	17,334	26,934	15,843	15,212	16,629	16,709	21,111	29,515
Bus depreciation reserve	0	0	0	0	0	8,370	0	0	0	5,480
School lunch program	2,481	2,353	2,183	2,220	2,047	1,900	536	449	0	---
Retirement fund	1,891	2,186	2,185	2,344	3,075	3,275	3,800	4,328	13,364	42,151[d]
Debt service	0	13,516	19,305	18,375	24,425	21,935	11,623	24,830	10,885	17,890
Housing and dormitory fund	0	0	0	0	0	0	670	2,149	3,028	---
Traffic education fund	0	0	0	0	0	0	821	1,142	265	---
Federal programs reported separately	93	6,234	17,657	15,204	15,572	21,241	18,383	12,873	10,490	---
Adult education	0	0	0	0	0	0	0	0	0	4,000
Total expenditures of current funds	91,830	127,856	141,472	157,255	159,181	178,376	176,504	223,503	265,184	463,293
Adjusted for price changes[e]	*74,356*	*98,806*	*103,718*	*108,601*	*103,633*	*108,369*	*100,400*	*121,667*	*135,922*	*205,908*
Building fund expenditures	0	216,569	20,236	0	152	0	0	0	0	---

Notes: Budget figures for 1975-76 are not strictly comparable with expenditure figures for earlier years. Totals do not always add because of rounding.

[a]Library, school food services, health, attendance, student body, and other supportive services.

[b]New equipment, other; expenditures from general fund only, no bonds issued.

[c]Includes Social Security beginning 1973-74.

[d]Includes $10,913 new cash added to reserve.

[e]Expenditures in 1958 dollars based on U.S. Department of Commerce, implicit price deflator for state and local government purchases of goods and services. 1975-76 estimated.

Source: Annual Reports of School Trustees to County Superintendent of Schools, 1965-66 to 1973-74; Budget and Application for Tax Levies for year beginning July 1, 1975.

two schools from 1965-66, a pre-coal development year, to 1973-74 and the budgets for 1975-76. Expenditure data for 1974-75 were not yet available as of September 1, 1975.

Even when current expenditures are adjusted for price increases, as they are in the next to last line of the tables, the increases are very large: approximately 395 percent for elementary school expenditures and 177 percent for high school spending between the 1965-66 school year and the 1975-76 year. Not all of this increase is strictly due to coal-related school enrollment. According to the budget some new services have been added and others expanded over the ten-year period. Combined library expenditures, for instance, were a meager $713 in the two schools in 1965-66; the budget amount in 1975-76 was $13,616. Even when converted to constant dollars, this amounts to a tenfold increase. Conflicting statements have been made concerning changes in the quality of education. It would be surprising if so rapid an increase in enrollment had not created problems.[13] However, some of them appear to have been temporary. An official of the Montana Department of Public Instruction reported in the fall of 1975 that the schools were well equipped and the teaching staff enthusiastic.

Certainly there have been problems with space. As often happens in areas experiencing rapid growth, the increased school enrollment in the early 1970s occurred before new taxable property had come onto the tax rolls. As a result, it was necessary to house classes in temporary mobile classrooms, some purchased by the school district and some provided by Western Energy Company. Even so, there was double shifting during 1973-74. Voters recently approved $2.8 million in bond issues to finance a new $1.8 million elementary school and renovate the high school. Neither facility

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[13] See Montana Energy Advisory Council, op. cit., pp. 4-5.

is designed to handle enrollment created by Colstrip III and IV, whose construction remains uncertain.

Tax Revenue

School expenditures, then, increased very rapidly as enrollments grew. But we have already noted that most of the increase in property tax valuations as a result of coal development also has occurred in district 19. Table 16 gives the figures: taxable valuation in the elementary district increased from a little over $1 million pre-coal (1965-66) to $22.4 million in fiscal 1976; high school district valuation went from $1.9 million to $24.2 million. These are very large increases; however, as the table shows, by far the largest gains occurred between fiscal 1975 and 1976, several years after coal development began. The following pages will discuss the Colstrip district's experience since 1965-66.

Montana schools are financed by a complicated public school foundation program. Funds are provided according to formula by state and county government and local school districts. Local budgets are effectively determined by the legislature, which adopts per pupil schedule rates for schools of different sizes. The per pupil dollar amount then is multiplied by the number of students in school the previous year. This establishes the amount of money that can be budgeted for general expenditures under the maximum schedules. When enrollment is expected to increase very rapidly during the year in question, an allowance can be made for an "unusual enrollment increase." This was done in Colstrip in 1974-75.

Separate levies for transportation, bus reserve, tuition, retirement and debt services are permitted, over and above the general fund levy. And, if they wish, school district residents may vote additional levies for the general fund; this is usually done in most Montana districts.

Table 16

Taxable Valuation, Colstrip District 19
Fiscal Years 1961-1976

Fiscal Year	Elementary	High School
1960-61	$ 875,384	$ 1,787,458
1961-62	852,013	1,686,561
1962-63	980,226	1,686,068
1963-64	995,730	1,781,189
1964-65	1,083,749	1,867,747
1965-66	1,068,756	1,864,839
1966-67	1,100,100	1,946,522
1967-68	1,116,196	2,006,530
1968-69	1,093,500	2,026,335
1969-70	1,351,105	2,320,304
1970-71	1,937,129	3,131,158
1971-72	3,496,231	4,719,324
1972-73	6,995,460	8,316,820
1973-74	7,465,433	8,914,783
1974-75	10,207,513	11,849,844
1975-76	22,393,341	24,181,043

Source: State of Montana, Office of the State Superintendent of Public Instruction, unpublished data.

Budget funding is provided by state and county government and school districts. State law earmarks 25 percent of the state income tax for schools and additional state appropriations are made.

Under present law, all counties are required to levy 40 mills for schools countywide; these funds, together with the state appropriation, go to fund the foundation program, which is set at 80 percent of maximum budget schedules. If a county doesn't need all the money raised by the 40-mill levy to fund its program, the excess goes to the state for distribution elsewhere.

If the 40-mill levy plus earmarked revenues and state appropriations do not fully fund the foundation program at 80 percent of the maximum schedule, then the state may impose a statewide deficiency levy. Such a levy has not been imposed since the present law was passed.

District levies finance the remaining 20 percent of the maximum budget set by the legislature through a permissive levy of up to 6 mills for high school and 9 mills for elementary schools. If the amount falls short, the state makes up the difference by means of a statewide permissive levy.

In fiscal 1974 a statewide permissive levy of 12 mills was imposed, which explains why the state levy that year was so high (column 1, table 9). Of the almost $200,000 collected in Rosebud County under the 12-mill levy, some $126,000 was distributed to other counties under the state equalization program.[14] No statewide permissive levy was necessary in fiscal 1975; in 1976, a statewide levy of 3.9 mills was levied.

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[14] Montana Taxpayers Association, op. cit., p. 19.

Columns 5, 6, and 7 of table 9 show the trend of countywide mill levies for public schools in Rosebud County and column 13 gives Colstrip district levies since 1960-61. Table 17 summarizes the mill levies for school purposes in district 19.

It is interesting to note that total mill levies for school purposes increased most rapidly in the latter half of the sixties, when taxable valuation in the county was falling (table 8). Beginning in 1967, levies for the retirement of debt on the new Colstrip school buildings contributed to the increase.

Although enrollment has increased steadily and substantially beginning in 1970, total mill levies paid by district 19 residents declined in 1971-72 and 1972-73, and were only slightly higher than in 1965-66. Levies rose again in 1973-74 and 1974-75, as the rate of enrollment increase accelerated and because of other factors.

In fiscal 1974, the 12-mill statewide school deficiency levy referred to above was added to an already high countywide levy; about two-thirds of the amount raised in Rosebud County was distributed to other counties under the equalization program. In fiscal 1975, the increase in enrollment anticipated by the district did not materialize and both the elementary and high school overbudgeted.

Between 1965-66 and 1974-75, the school mill levy for district 19 residents rose 45 percent, from 61.46 to 88.93 mills. This was a substantial increase. Of the 55 school districts operating in both years in Multi-County District Three (Rosebud, Treasure, Custer, Fallon, Powder River, and Carter counties), only 11 had mill levy increases of more than 45 percent. Only 12 of the 55 districts had higher mill levies than Colstrip (table 18). Thus district 19 residents had a right to feel burdened by school taxes in fiscal 1975.

Table 17

Property Tax Mill Levies for School Purposes
Paid by Taxpayers in Colstrip Elementary and High School District 19
Fiscal Years 1961-1976

Fiscal Year	County School Levy	District 19 Levies	Total School Levy
1960-61	19.85	23.95	43.80
1961-62	19.07	25.27	44.34
1962-63	19.72	38.97	58.69
1963-64	33.37	20.45	53.82
1964-65	29.79	20.62	50.41
1965-66	39.51	21.95	61.46
1966-67	37.52	37.50	75.02
1967-68	46.82	39.72	86.54
1968-69	43.85	41.25	85.10
1969-70	46.96	32.61	79.57
1970-71	47.79	34.70	82.49
1971-72	45.23	18.60	63.83
1972-73	43.98	18.80	62.78
1973-74	47.27	20.44	67.71
1974-75	47.80	41.13	88.93
1975-76	46.62	18.15	64.77

Note: In 1973-74, residents also paid a 12-mill statewide permissive levy, and in 1975-76, a 3.9-mill statewide permissive levy. (See table 9.)

Source: Table 9.

Table 18

A Comparison of School Tax Levies in 55 School Districts in Montana Multi-County District Three
Fiscal Year 1975

Change in Total School Levy Fiscal 1966 to Fiscal 1975	Number of Districts
Decrease:	
1 to 20 percent	11
Increase:	
1 to 44 percent	32
45 percent (Colstrip)	1
46 to 75 percent	11

Amount of Total School Levy Fiscal 1975	Number of Districts
Less than 88.93 mills	42
88.93 mills (Colstrip)	1
More than 88.93 mills	12

Note: The total school levy (state, county, and district) in Colstrip for fiscal 1976 is 68.76 mills.

Source: Montana Taxpayers Association, Montana Property Taxation 1967 and 1975.

As a result of overbudgeting in fiscal 1975, the elementary school began the 1975-76 school year with a $134,000 general fund reserve and the high school had a $109,000 reserve. State law permits a reserve fund of up to 35 percent of the current general fund budget. The budget figures listed for 1975-76 in tables 14 and 15 do not include these reserve funds.

Because of the large increase in taxable valuation in 1975 and the schools' comfortable financial situation, combined county and district school levies declined substantially in 1975-76, from 88.93 the year before to 64.77. The statewide permissive levy of 3.9 mills increased the total school levy to 68.67 mills. This reduction no doubt put the school district in a far more favorable position vis-a-vis districts in neighboring counties than was the case in fiscal 1975.

It should be noted that changes in local school levies and the relationship of county to district levies reflect changes in state law and state funding as well as changes in local enrollments, costs, and property values, thus making interpretation of coal-related change difficult. Not all the changes in mill levies shown in table 17 resulted from local development, although it is obvious that coal activities have played a major role.

Conclusions

Growing enrollments and insufficient information as to future developments have created problems for the Colstrip school district and its taxpayers. Mill levies in District 19 in fiscal 1975 showed a greater increase over fiscal 1966 than did levies in most districts in neighboring counties. For now, however, the financial crunch appears to be over, with 1976 mill levies down substantially and both schools in possession of substantial reserve funds. A new elementary and a renovated high school building are in process, but neither will accommodate the increased enrollment Colstrip III and IV would bring.

One reason the problems were not more severe in Colstrip was that many construction workers lived in other parts of the county, or outside Rosebud County, and their children were enrolled in other school districts. All Schools in the county, of course, benefit from the increased property valuation underlying the countywide school levy. Nevertheless, the bulk of the benefits accrue to the Colstrip district, since all of the present coal development in the county lies within that district.

THE OVER-ALL EXPERIENCE

We have seen that tax levies for county purposes (excluding schools) increased rather modestly during the early years of coal development and then declined, thanks to growth in taxable valuation and increases in other revenue sources. The mill levy for county purposes in fiscal 1976 was the lowest since fiscal 1964.

Total school levies in the Colstrip district followed an erratic pattern between fiscal 1966 and fiscal 1976. They were high in the late 1960s as residents paid high levies for debt retirement on two new school buildings built before coal development became a factor. They were high again in fiscal 1974 and 1975 as enrollment increased with new plant construction and as the state imposed an unusual 12-mill statewide school levy in 1974.

What about the over-all tax burden for Colstrip residents? There have been some rather difficult years; total levies (state, county, and school) were high in fiscal 1969 through 1971 and again in fiscal 1974 and 1975, as Colstrip plants I and II were under construction. Nevertheless, heavier burdens on taxpayers have been imposed in a fair proportion of school districts in Rosebud and neighboring counties, including areas where no development and little population change has occurred. In 17 of the 55 school districts in southeastern Montana counties (Multi-County

District Three) the percentage increase in total mill levies between fiscal 1966 and fiscal 1975 (the peak construction year) was greater than in District 19 and in 16 districts total mill levies exceeded the Colstrip district levy in fiscal 1975 (table 19). In fiscal 1973 and 1974, total mill levies were higher in 32 of the 55 school districts. We regret that mill levies for fiscal 1976 are not yet available for all local governments. Given the substantial decline in total levies in both the county and the Colstrip school distirct, we are reasonably certain that total property tax levies would compare favorably with the levies in other areas of the state.

This does not mean that financial problems have not occurred over the past few years. Our reading of the record, however, indicates that things might have been much worse. Other local governments in Montana probably have had just as severe fiscal difficulties, without the prospects of easier times ahead. Our expectations for the future of Rosebud County and the Colstrip school district are that, although additional problems may occur, prosperity may be just around the corner.

A SUMMARY OF CURRENT COAL TAX LAWS

The ultimate purpose of this paper is to assess Colstrip's ability to handle further expansion of coal activities--namely, the proposed generating plants III and IV. To do this, it is necessary to review current coal tax legislation. Much of it was enacted during the 1975 legislature session and was designed to alleviate local fiscal problems related to coal development.

Five major taxes of the Montana tax system affect the operations of strip coal mines and electrical generation plants in Montana. Three of the taxes are based directly on the gross value of the coal or electricity produced: the Coal Mines License Tax, the Resource Indemnity Trust Tax,

Table 19

A Comparison of Total Property Tax Levies in
55 School Districts in Montana
Multi-County District Three
Fiscal Years 1966 and 1975

Change in Total Levy, Fiscal 1966 to Fiscal 1975	Number of Districts
Decrease:	
1 to 23 percent	12
Increase:	
1 to 20 percent	23
21 percent (including Colstrip)	3
22 to 46 percent	17

Amount of Total Levy, Fiscal 1975	
Less than 129.31 mills	38
129.3 mills (Colstrip)	1
More than 129.3 mills	16

Note: The total property tax levy in Colstrip for fiscal 1976 is 98.32 mills.

Source: See table 18.

and the Electrical Energy Producers' License Tax. The Corporation License Tax is an income tax based on the net income of the corporate operation.[15] The fifth tax is the property tax which is levied against real and personal property; rights to enter land for digging, prospecting, or exploration, and the gross proceeds of coal mines.

We will look at each of these taxes in some detail, placing particular emphasis on the coal mines license tax and the property tax. The license tax has been designed by the legislature as a vehicle for the transfer of state tax money to local governments in coal development areas. The property tax, the major source of local government revenue, is administered at the state level. Significant changes in the property tax law were made by the 1975 Legislature in response to coal development.

COAL MINES LICENSE TAX[16]

The Coal Mines Tax is a severance tax on the gross value of coal mined in the state. The tax is levied against coal producers and the rates are based on the BTU rating (heat content) of the coal and the contract sales price.

The 1975 Montana Legislature made sweeping changes in both the method of computation and distribution of proceeds from this tax. Prior to July 1, 1975, the Coal Mines License Tax applied strictly to strip mines and the rates ranged from $.12 to $.40 per ton, based on BTU content. Beginning in late March 1974, 3 cents per ton of the tax were returned to the county where the mine was located and the remainder went into the state's general

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[15]The incomes of individuals are also taxed by the Montana Individual Income Tax, but, since most coal and electricity producers are corporations, this tax is not discussed in this section.

[16]Revised Codes of Montana (RCM) 1947, Title 84, Chapter 13.

fund. The current rate schedule is applied to all coal producers and is set as follows:

Heating Quality BTUs/lb. of Coal	Tax Rate Surface Coal Mines	Tax Rate Underground Coal Mines
Under 7,000	$.12/ton, or 20% of value, whichever is higher	$.05/ton, or 3% of value, whichever is higher
7,000-8,000	$.22/ton, or 30% of value	$.08/ton, or 4% of value
8,001-9,000	$.34/ton, or 30% of value	$.10/ton, or 4% of value
Over 9,000	$.40/ton, or 30% of value	$.12/ton, or 4% of value

Each mine operator must file a statement with the Montana Department of Revenue for each calendar quarter of operation indicating the tonnage produced, the contract sales price, the BTU rating of the coal, and a computation of the tax due. In computing the tax, the first 5,000 tons of coal produced each quarter are exempt. The quarterly report and amount of tax payment must be sent to the Department of Revenue within 30 days after the end of the quarter. A penalty of 10 percent for failure to file, or late payment, can be levied plus interest at 1 percent per month.

"Contract sales price" is defined to mean either (1) the price of the coal extracted and prepared for shipment, F.O.B. mine, excluding that amount charged by the seller to pay taxes paid on production or (2) the price imputed by the Department of Revenue when the coal is not sold under an arms-length agreement.

"Taxes paid on production" is defined as any tax paid to federal, state, or local governments upon the quantity of coal produced as a function of volume or value. Property and income taxes are specifically excluded from this category.

In cases where the coal producer also processes the coal or transfers the coal to a parent corporation, or other subsidiary, at less than an

arms-length transaction, the Department of Revenue will impute a price which approximates market value. The Department may request federal income tax and sales contract data from the producer.

The Montana Bureau of Mines and Geology will perform the BTU ratings on coal samples supplied by the producer. At least one sample per year is required by law, although the Bureau may request additional samples.

Effective July 1, 1975, the distribution of the Coal Mines License Tax is as follows:

$.03/ton, or 4% of the tax revenue, whichever is higher	--	to the county from which the coal was mined for such purposes as the county government may determine. After December 31, 1979 the rate changes to $.03/ton, or 3-½% of the tax.
27.5% of the tax revenue	--	to a local impact and education trust fund account. After July 1, 1979 the rate changes to 35% of the tax.
10% of the tax revenue	--	to a coal area highway improvement account until July 1, 1979.
10% of the tax revenue	--	to the earmarked revenue fund for state equalization aid to public schools of the state.
1% of the tax revenue	--	to a county land planning account until December 31, 1979.
2-½% of the tax revenue	--	to an alternative energy research development account. After December 31, 1979 the rate changes to 4%.
2-½ of the tax revenue	--	to the sinking fund for renewable resource development bond account.
2-½% of the tax revenue	--	for the acquisition of land for state parks, recreational areas, state monuments or state historical sites. After July 1, 1979, the rate is increased to 5% and the funds are limited to park acquisitions.
The remaining 40%	--	to the general fund.

The tax revenue accumulated in the coal area highway improvement fund will be transferred to the Department of Highways to improve roads in coal development areas other than primary and secondary highways already covered under federal construction programs.

The governor has appointed a seven-member coal board which will administer the local impact and education trust fund account. The board will make grants to local governments (counties, cities, and towns and school districts) and to state agencies to assist local governments in providing governmental services and facilities needed as a direct consequence of coal development. The Department of Community Affairs is instructed to designate counties, towns, and school districts which have had at least a 10 percent population increase during any three years since 1972 as a result of coal development. The coal board must then establish a priority for those areas and direct 50 percent of all grants to them.

The coal board may make grants up to 7/11 of the revenue paid into the local impact and education trust fund until June 30, 1979. After that date, up to 3/7 of the revenue to that account may be expended for grants. The investment income earned on the trust account is earmarked for the public schols and the University system.

The revenue accumulated in the county land planning account will be distributed by the Department of Community Affiars to counties on the basis of the county's percentage of total land area of the state and the percentage of total population of the state.

PROPERTY TAXES

Property taxes are levied by the state, counties, cities and towns, school districts, and special districts against the holders of real and personal property, rights to enter land for digging, prospecting, or

exploration, and the gross proceeds of coal mines. The responsibility for equitable assessment of all property in the state lies with the Department of Revenue. The county governments serve as the tax collector and agent for the other levels of government.

Real and Personal Property

The machinery, equipment, and real estate (land and buildings) of coal mines and electrical generation plants are included in this category and subject to property taxation. By statute, real and personal property in the state is assessed at 40 percent of its full cash value. The assessed valuation is then reduced by the classification system in the Montana laws.[17] Most nonagricultural real and personal property is included in Class 4 which is taxable at 30 percent of its assessed value. An exception would be pollution control equipment which is now classified in Class 7 and taxed at 7 percent of its assessed valuation.

Certain new industrial property may receive preferential tax treatment by being classified as Class 7 property for the first three years and taxed at 7 percent of assessed valuation rather than 30 percent under Class 4. To achieve this status the new industrial facility must apply to the Department of Revenue and meet the definition under the law:

> New industry shall mean any person, corporation, firm, partnership, association, or other group which establishes a new plant or plants in this state for the operation of a new industrial endeavor, as distinguished from a mere expansion, reorganization, or merger of an existing industry or industries. Provided, however, that the industrial property shall be limited to industries that manufacture, mill, mine, produce, process or fabricate material, or do similar work in which capital and labor are employed and in which materials unserviceable in their natural state are extracted, processed or

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[17]RCM, 1947, Sections 84-301 and 84-401.

> made fit for use or are substantially altered or treated so as to create commercial products or materials;...and in no event shall the term new industrial property be included to mean property used by retail or wholesale merchants, commercial services of any type, agriculture, trades or professions...[18]

The 1975 Legislature narrowed this definition further by excluding new industrial property which will create an adverse impact on existing state, county, or municipal services. The Department of Revenue must develop regulations for the determination of what constitutes an adverse impact taking into consideration the number of people to be employed and the size of the community in which the location is contemplated. If the Department of Revenue rejects an application for Class 7 status on these grounds, it must hold a hearing. At that time, the local taxing authority may waive its objection to Class 7 status if the industry agrees to pre-payment of taxes sufficient to satisfy tax requirements created by the location and construction of the facility.

The Department of Revenue has taken the position that firms who have previously operated coal mines in Montana cannot be subsequently classified as a new industrial facility by opening a new mine. This point is currently under litigation. The new requirement for determination of adverse effect has not been exercised as of yet.

Rights to Enter Land

The property tax also is levied against "rights to enter land for digging, prospecting, or exploration." Since these rights are intangible in nature and there are no legally prescribed means of measuring the value of such rights, the Department of Revenue has appraised the value on a per

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[18]RCM, 1947, Section 84-301, Class 7(a).

acre basis with average values by county ranging from $0.20 to $7.50 an acre. These rights are included in Class 1 and are taxable at their full assessed value.

Gross Proceeds

The 1975 Legislature excluded coal mines from the Net Proceeds Tax of Montana and passed legislation to include the gross proceeds of coal mines as property subject to property tax mill levies.[19] Each person or firm engaged in coal mining must file a statement with the Department of Revenue by March 31st indicating the gross yield of coal and its value for the preceding calendar year. The "contract sales price" as defined for the Coal Mines License Tax in Section 84-1313 will be used as the valuation of the coal production for the year. By July 1 each year, the Department of Revenue must transmit the valuation of the gross proceeds to the county assessor who enters the valuation on the tax roles of the jurisdiction where the mine is located. The gross proceeds of underground coal mines are classified in Class 3 and taxed at 33-1/3 percent of the assessed valuation. Gross proceeds of strip mines are included in Class 10 and taxed at 45 percent of the assessed valuation.

Property Tax Computation and Collection

The taxable values determined in the previous paragraphs are totaled and multiplied by the mill levy rate for each taxing jurisdiction in which the property is located. The county treasurer notifies the taxpayers of the amount due, collects the tax, and transfers the amounts levied by the state and lower governmental units.

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[19]RCM, 1947, Sections 84-1320 to 84-1324.

Under certain circumstances the county commissioners of a county in which a major new facility is planned may require the prepayment of three times the estimated property tax due the year the facility is completed.[20] A major new industrial facility is defined as a manufacturing or mining facility which will employ, on an average annual basis, at least 100 people in construction or operation of the facility and which will create a substantial adverse impact on existing state, county, or municipal services. Payment need not be all at one time, but only in the amounts needed from time to time by request of the county commissioners. Property will be taxed during the first three years and thereafter, except that one-fifth of the amount prepaid will be allowed as a credit against property taxes in each of the first five years after the start of productive operation.

RESOURCE INDEMNITY TRUST TAX[21]

The resource Indemnity Trust Tax is a tax placed on the extraction of nonrenewable resources in the state to provide a trust fund account for repairing damage to the environment caused by resource extraction. The tax is levied against business entites extracting nonrenewable resources, including coal, and is based on the value of the product extracted. Each mine operator must file with the Department of Revenue a statement by March 31, indicating the gross yield and value of the minerals at the time of extraction during the previous calendar year. The annual tax to be paid at the time of filing is $25 plus 0.5 percent of the gross value of the mineral extracted, if in excess of $5,000.

All receipts from the Resource Indemnity Trust Tax will be invested by the State Board of Investments until the principal and interest in the

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[20]RCM, 1947, Section 84-41-105.

[21]RCM, 1947, Title 84, Chapter 70.

trust account reaches $10,000,000. At that point, the net earnings may be appropriated and expended until the account reaches $100,000,000. Thereafter, the net earnings and receipts of the tax may be appropriated by the legislature and expended to "improve the total environment and rectify damage thereto."

This tax was enacted by the 1973 legislature and first applied to mineral production in calendar year 1973. The balance of the trust account as of August 31, 1975 was $3,291,879, so it will take several years to reach a balance of $10,000,000 where the net earnings of the account will be available for expenditure.

ELECTRICAL ENERGY PRODUCERS' TAX[22]

Each business entity engaged in the generation, manufacture, or production of electricity and electrical energy in the state for barter, sale, or exchange is taxed on the sales value of the electricity by the Electrical Energy Producers' Tax. The producing entities are required to file a report with the Department of Revenue by the 15th of each month indicating the gross amount of money received from sales of electrical energy in the preceding calendar month. The tax due at the time of filing is computed at the rate of 1.688 percent of the gross sales of electricity for the calendar month. An exemption is allowed for electricity used for pumping water for irrigation purposes on land in the state of Montana except where the water is sold or rented to such irrigated lands.

Proceeds from the Electrical Energy Producers' Tax are placed in the state's general fund.

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[22]RCM, 1947, Title 84, Chapter 16

CORPORATION LICENSE TAX[23]

The Corporation License Tax is an income tax levied against corporations for the privilege of doing business in the state of Montana. Coporate net income is determined in a manner similar to that of the federal corporate income tax; allowable deductions for operating expenses and depreciation are subtracted from gross income to derive taxable income. Montana taxes only the income derived from business conducted in Montana and the statutes provide procedures for the segregation of income within and without the state.

The tax rate is 6.75 percent of the net income derived in Montana with a minimum of $50. The tax return and payment must be filed by the 15th day of the fifth month after the close of the corporation's fiscal year.

Receipts from the Corporation License Tax are distributed to three state funds: 64 percent to the general fund, 25 percent to the education equalization fund, and 11 percent to the sinking fund for bond retirement (long range building program).

FINANCIAL ASSISTANCE FOR LOCAL GOVERNMENTS IN COAL DEVELOPMENT AREAS: A RECAP

We have noted over and over that the local property tax is the financial backbone of county, city, and town governments and school districts in Montana. The construction of a coal mine or electrical generation plant near a community can dramatically increase the property tax base and tax revenues of the community and the county. Whether or not the increased tax revenues from the new project are large enough to meet the increased requirements for public services depends largely on the size, location, and timing of the project's construction and the economic and social characteristics of the

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[23]RCM, 1947, Title 84, Chapter 15.

area where it is located. Location of the project is crucial. If the mine or plant is located in one taxing jurisdiction (county, city, or school district) and the new employees choose to live in another, tax revenues generated by the coal development project may not be available to the county, city, and school districts feeling the impact of the increased population.

Recognizing these potential problems, the Montana legislature provided for two mechanisms in the state tax system designed to help alleviate them. First, the state educational foundation program (an equalization fund originally established in fiscal 1950 and last amended in 1973) is designed to channel funds from school districts with excess financing to districts with deficits. Secondly, the distribution of the funds collected by the Coal Mines License Tax has been modified to channel a portion of the tax receipts back to the communities and counties impacted by coal development. As we mentioned in a previous section, 4 percent of the Coal Mines License Tax revenue (3-½ percent after December 31, 1979) will be returned to the county from which the coal was mined to be used for such purposes as the county government may determine. Additional funds from the license tax will be channeled back to impacted areas in the form of grants from a trust account to assist local governments in providing adequate levels of public services and education. Ten percent of the tax revenue will be used by the State Highway Department for the improvement of highways in coal development areas of the state until July 1, 1979. Also, recent changes in the state's tax laws allowing counties to require industrial firms to prepay property taxes in certain cases may help many counties over mine and plant construction periods where demands for public services increase rapidly but tax revenues lag far behind.

THE OUTLOOK FOR 1980

A proposal for the construction of two more coal-fired generating plants at Colstrip currently is before Montana state government. A decision should be announced late in 1975 or early in 1976. If the proposal is approved, and the approval goes unchallenged in the courts, construction of the two 700-kilowatt plants could begin in 1976. In the following analysis we assume the completion of one plant in mid-1980 and of the other in mid-1981. We evaluate the ability of the Colstrip school district and Rosebud County to provide the additional services such an expansion would require.

We have spent considerable time in describing what has happened during the construction of Units I and II, because that experience is useful in helping us project what may happen during the next five years. Previous sections have shown that local government, especially the Colstrip school districts, had some difficult times as population increased and enrollments rose and property valuations at first failed to keep pace. The financial difficulties were short-lived; in fiscal 1976 both the county and school districts found themselves in comfortable position, with prospects for further large increases in property values as plants I and II were completed.

Now local government is faced with another construction cycle, should Units III and IV be approved. This time, however, construction activity will be imposed upon a considerably larger base, both in terms of population and property values.

PROJECTED EMPLOYMENT AND POPULATION

Table 20 presents estimates of coal-related employment (including construction) in the Colstrip area from 1976 thourhg 1980. Peak employment

Table 20

Estimated Employment in Coal-Related Activities
Rosebud County
1975-1980

Year	Employment
1975	1,724
1976	912
1977	883
1978	1,428
1979	2,023
1980	2,076

Note: Includes mining, construction, and generating plant operation.

Source: Western Energy Company. Peabody Coal employment estimated by authors.

during the construction of Units I and II occurred in 1975; total employment in coal-related activities averaged 1,700 that year. During the construction of Units III and IV, coal-related employment may average 2,000 in 1979 and 1980. In 1970 coal-related employment was approximately 120 and total employment in Rosebud County was approximately 2,550.[24]

Looking at the rapidity and extent of increased employment in the early 1970s (table2), one wonders why the increase in population and therefore the impact on local government was not greater. We think there are a number of reasons, most of which have been alluded to in previous pages.

First a good many construction workers did not live either in Colstrip or in Rosebud County. Ohter workers lived near the construction site, but did not bring their families. Second, the growth in derivative employment (i.e., employment in activities providing goods and services for coal-related employees) appears to have been quite small. What employment data are available suggest that trade and service development in the county has been limited. We can think of a number of reasons why this is so: development in Colstrip has been controlled by the power company; Rosebud County residents (including newcomers) have continued to shop in Miles City or Billings; workers in local trade and service establishments may well have been underemployed before coal development; and potential entrepreneurs appear to have exercised caution in committing resources to a temporary construction boom situation. In any event, coal development thus far seems to have resulted in much less secondary expansion than even some of the moderate projections envisioned. There were only 284 more wage and salary

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[24] U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economics Information System, unpublished data, and table 2. Figures refer to number of jobs.

workers in trade, personal and business services, utiltites (except railroads), and finance, insurance and real estate in 1974 than in 1970.[25]

Estimates--and they are only rough approximations--of total employment and population in Rosebud County in 1974, 1979 and 1980 appear in table 21. The 1974 employment estimate is based on the fragmentary data available; no total employment estimates are prepared on an annual basis for Rosebud County. The employment projections for 1979 and 1980 are based on estimates from the Western Energy Company of permanent employment in mining and power generation. The multiplier derived by Paul E. Polzin for a three-county area including Rosebud County--one new job in derivative industries for each new basic coal-related job--was applied to this total.[26] In dealing with construction employment and its impact, we assumed a smaller multiplier effect than did Polzin, based upon experience during the construction of Units I and II. Whereas he assumed a ratio of one new job in derivative industries for each two new construction jobs, we assumed a ratio of one to five.[27] This appears to be representative of what happened during 1970-74 in Rosebud County; we would not expect the ratio to be higher in coming years.

The total of new coal-related jobs and the resulting new employment in derivative industries plus construction and related derivative employment represents the net increase in jobs in 1979 and 1980 over 1970. In each case, the estimated increments were added to the 1970 employment figure to obtain the projections for 1979 and 1980 which appear in table 21.

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[25]Employment Security Division, Montana State Employment Service, Department of Labor and Industry, unpublished data. Average annual figures.

[26]Paul E. Polzin, Water Use and Coal Development in Eastern Montana, Bureau of Business and Economic Research, School of Business Administration, University of Montana, Missoula, November 1974. See pp. 100-126 for methodology.

[27]Polzin, pp. 126-135.

Table 21

Estimated Total Population and Employment, Rosebud County
1970, 1974, 1979, and 1980

Year	Population	Employment
1970	6,032[a]	2,550[b]
1974	7,700[c]	4,000[d]
1979	11,900[d]	5,330[d]
1980	12,300[d]	5,490[d]

[a]Population as of April 1, 1970. U.S. Bureau of the Census, 1970 Census of Population, Number of Inhabitants, Montana, p. 28-15.

[b]U.S. Department of Commerce, Bureau of Economic Analysis, Regional Economics Information System, unpublished data; average annual employment.

[c]Population as of July 1, 1974. U.S. Bureau of the Census, Federal-State Cooperative Program for Population Estimates, Estimates of the Population of Montana Counties and Metropolitan Areas, Series p-26, No. 109, Apirl 1975. Provisional estimate.

[d]Authors' estimates. Population as of July 1; average annual employment.

Applying Polzin's projected participation rates (.424 for coal-related and derivative employment and .50 for construction workers) to the above employment estimates provided the basis for population projections for 1979 and 1980.

We think both the employment and the population projections represent the maximum increase. They assume, for instance, that all construction workers will reside in the county; this was not the case during the construction of Colstrip I and II. Nevertheless, since we wish to be conservative in estimating the probable effects on local fiscal affairs, we feel comfortable with these projections.

Observant readers will note that the labor force participation ratio implied in table 21 is very high for 1974. It was 42 percent in 1970 and is estimated at 45 percent for 1979 and 1980, whereas the 1974 ratio, according to the table, was 52 percent. We think the population estimate for 1974 is too low; we note also that it is an estimate as of July 1, and that 1974 construction employment on Colstrip I and II increased rapidly after that date.

What effects will the second round of employment and population increases resulting from the construction of Units III and IV have on Rosebud County and the Colstrip school districts? We think the second round will be considerably less painful than the first.

PROJECTED EXPENDITURES

Rosebud County

Our scenarios call for the completion of Unit III in mid-1980 and Unit IV in mid-1981. This means that construction employment will be at its peak during fiscal 1980--the period from July 1, 1979, to June 30, 1980.

In 1974-75, Rosebud County spent $1,244,611, or approximately $162 per county resident as of July 1, 1974, to operate county government (table 5). This figure excludes payments on county indebtedness. The $162 is probably high, because we think the popluation estimate of 7,700 as of July 1, 1974, is low; but we would rather our estimates were too high than too low.

We deflated the per person expenditures for fiscal 1970 and fiscal 1975 by use of the implicit price deflator for state and local government (as in table 4), and found that after the effects of inflation are removed, per capita expenditures in the two years were not very different--$70 in 1970 and $75 in 1975, both expressed in 1958 dollars.

In estimating total expenditures for 1980, we assumed that county residents would demand, and county government would provide, a somewhat higher level of services over the next five years and that per capita expenditures in 1975 dollars might rise from $162 in fiscal 1975 to $180 in fiscal 1980--or an increase of 11 percent.

If that were to happen, we estimate that total expenditures for county operation would reach $2,142,000 in 1979-80--a 72 percent increase over the 1974-75 expenditures, with no allowance for inflation.

Colstrip School Districts

Many of the new workers added to activities at Colstrip in the next five years will be permanent workers in the mines and the plants. Most of them will bring their families with them and live within the boundaries of the Colstrip elementary school district and, of course, the larger high school district. In 1979, there will be some 320 more permanent mining and plant jobs and 485 more construction jobs in Colstrip than in 1974. In addition, jobs in supporting industries will be added.

We estimate that the maximum increase in the Colstrip community's population between 1974 and 1979 would be 2,700 persons, making the total population in 1979 something like 5,000. We regard this as a maximun; it assumes that all permanent mine and plant workers, all the additional construction workers, and all new employees in derivative industries resulting from coal activity live in Colstrip. The estimate was computed in the same manner as the population estimate for the county. We assume that the proportion of school age children among the new population would be larger than for the 1974 population, and that Colstrip school enrollment in 1979 might reach 1,100.

Like per capita expenditures for county government operation, per student budgets in the Colstrip school appear to have increased very little in real terms (after adjustment for price changes) since 1970. But we shall assume that the Colstrip schools raise their level of services so that per pupil budgeted expenditures increase by 10 percent in constant (1975) dollars between the school years 1975-76 and 1979-80. (We use 1975-76 here because, as noted earlier, the budget for 1974-75 overestimated school enrollments.)

According to state law, school budgets for any year are based on a figure called "average number belonging" (ANB) for the previous year, plus, if necessary, an allowance for an unusual enrollment increase. For the 1975-76 school year, the total budgeted amount per ANB in the elementary school for operating purposes was $1,358; for 1979-80, assuming a 10 percent increase, it would be $1,494 (in 1975 dollars). The corresponding high school figure is $2,395 in 1975-76; in 1979-80 it would be $2,634. Assuming 760 elementary and 340 high school students, this would call for budgets of $1,135,400 and $895,600 respectively.

In 1975-76, approximately 43 percent of the elementary operating budget and 46 percent of the high school budget came from local property

taxes; the remainder represented county funds and other revenue. We shall assume that all of the increase in per pupil expenditures is financed by district voted levies; this means local tax loads for operating purposes of $591,430 for the elementary school and $493,400 for the high school (table 26). In addition, the Colstrip districts will be paying off a $2.9 million bond issue over the next 20 years--$1,848,000 for a new elementary school and $1,046,000 for renovating the high school. Assuming an average bond issue life of 10.5 years and an interest rate of 6.5 percent, the average annual cost will be about $160,000 to the elementary school and $90,000 to the high school district. We noted earlier that this construction program is not designed to accommodate increased enrollment as a result of Colstrip III and IV, should they be constructed. The new elementary school and renovated high school will handle only 550-575 students. The construction should be completed in 1977. As a rough "guesstimate" we would anticipate that total enrollment after construction ended and Units III and IV were in operation might be around 700. This would call for additional school facilities. Assuming another $1.2 million bond issue prior to 1980 with the same conditions described above, there would be an additional $140,000 cost per year. We arrived at the $1.2 million figure by estimating facilities for 200 more students at $6,000 per student (120 square feet times $50 per square foot).[28] Total Tax money to be raised by the districts then becomes $841,300 for the elementary school and $633,400 for the high school.

A casual look at the estimated increases in expenditures for county government and for the Colstrip schools is designed to disturb both local

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[28]See Montana Agricultural Experiment Station, op. cit., page 105.

government officials and taxpayers. But let us look at potential revenues in fiscal 1980.

POTENTIAL REVENUE

Changes in government revenues are difficult to project in a reliable manner. In the first place, legislative action may alter the tax rates and other provisions of the tax laws. Secondly, the underlying economy may change in a manner not foreseen at the time the projections are made, affecting the eventual tax revenues. Therefore, the following revenue projections for Rosebud County and the Colstrip school districts should not be viewed as precise forecasts, but rather "ballpark" estimates given the information we now have available.

The 1975 legislature made major revisions in the provisions of Montana's coal taxes. Even though these changes became effective July 1, 1975, all the legal implications have not been determined and the Montana Department of Revenue has not completely established the specific regulations and guidelines for the calculation of tax liabilities. The following projections are based on preliminary interpretations of the relevant laws and conversations with the staff of the Montana Department of Revenue. Later revisions in administrative procedures or new legal interpretations may significantly alter the potential revenue from these taxes.

The Tax Base

Rosebud County and its school districts will receive coal-related tax revenue from two sources: the Coal Mines License Tax and the Property Tax. Table 22 presents the revenue projections for these two taxes for Rosebud County, High School District 19 and Elementary District 19 for 1980.

Table 22

Projected Revenues from the Coal Mines License Tax and Property Tax
Rosebud County, High School District 19, and
Elementary District 19
Using Fiscal 1976 Mill Levies
Fiscal Year 1980

(1975 Dollars)

	Tax Revenue
Rosebud County, total	$9,777,200
Coal mines license tax[a]	666,500
Property tax	9,110,700
For county operating purposes	2,996,700
Gross proceeds	551,200
Property and net proceeds	2,445,500
For county schools	6,114,000
Gross proceeds	1,124,600
Property and net proceeds	4,989,400
High School District 19	
Property tax, including gross proceeds	719,300
Elementary School District 19	
Property tax, including gross proceeds	769,200

[a]May be used for whatever purposes county government determines

Notes: Excludes debt retirement levies. Detail may not add to totals because of rounding.

Table 23

Projected Coal Production in the Colstrip, Montana, Area 1975-1980

(Tons)

Year	Total Production	
	Without Colstrip III and IV	With Colstrip III and IV
1975	8,230,000	8,230,000
1976	13,430,000	13,430,000
1977	16,500,000	16,500,000
1978	16,500,000	16,500,000
1979	16,500,000	17,900,000
1980	16,500,000	20,700,000

Source: Adapted from Montana Energy Advisory Council, Coal Development Information Packet, December 1974, p. 28.

Revenue from the Coal Mines License Tax is based on the coal production schedule in table 23, including production for the Colstrip III and IV generating plants, and a contract sales price, exclusive of production taxes, of $3.42.[29] We assumed that there will be no other coal production in Rosebud County in 1980, and that one-fourth of the annual production occurs during each calendar quarter. Rosebud County's share of the Coal Mines License Tax is projected to be $666,500 in fiscal 1980 (in 1975 dollars). Present law provides that the share going to the county government that year will be 3-½ percent.

In the discussion of the Coal Mines License Tax, we indicated that a substantial portion of the collections (27.5 percent till July 1, 1979; 35 percent thereafter) will go into a local impact and education trust fund. In fiscal 1980, 43 percent (3/7) of the revenue paid into the fund may be used for grants to assist local governments and school districts in coal impact areas. The law requires that 50 percent of the grants made must go to local governments where population has increased at least 10 percent since 1972. We calculate that approximately $2.8 million will be available for local governments meeting that requirement in fiscal 1980.[30] We do not know how the recently-established coal board will allocate these funds. However, since most of the anticipated population increase in the eastern Montana coal area is expected to occur in the Colstrip area of Rosebud County, a large portion of the $2.8 million may go to the county government and the Colstrip school districts.

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[29]Estimate of current price per ton of coal, exclusive of production taxes, provided by Western Energy Company.

[30]Based on projected total state coal production of 36.8 million tons in calendar 1979 and 41.4 million tons in calendar 1980. (Table 23 and Montana Energy Advisory Council, Coal Development Information Packet, December 1974, p. 28).

It is worth noting also that although the coal area highway development account will expire on July 1, 1979, it will have provided considerable assistance up to that time. Based on present coal production projections for the state, the fund should have available something like $2.3 million in fiscal 1976, $3.0 million in 1977, $3.6 million in 1978, and $3.8 million in 1979. Again it seems likely that Rosebud County may receive a large share of the funds.

The property tax, as we have seen, taxes real and personal property, rights to enter land, net proceeds from oil and gas operations and the gross proceeds of coal mine operations. Table 24 compares the projected taxable valuation of the county and the two Colstrip school districts in 1978 and 1980 with the 1976 figures. The projections are based on cost estimates and timetables provided by the Montana Power Company for its Western Energy properties, including the community of Colstrip and the four electrical generating plants. It was assumed that the taxable value of the other non-utility sectors of the county and school districts would grow at a rate of 5 percent per year, compounded, even after allowing for the possible removal of a few hundred acres of farmland. Oil and gas net proceeds and the value of public utility porperty allocated by the state are assumed to remain the same, and no other major industrial developments have been anticipated for the county. Oil reserves in Rosebud County, as reported by the Montana Oil and Gas Commission, appear to be sufficient to permit continued production at current rates through 1980.

The total taxable valuation in Rosebud County is expected to more than triple between fiscal 1976 and 1980, rising from just under $43 million to over $138 million (table24). The increase will result primarily from the growth in The Montana Power Company's investment in Units I through

Table 24

Property Tax Base in Rosebud County, High School District 19, and Elementary District 19, 1976, and Projected Base in 1978 and 1980

	Taxable Valuation (1975 dollars)					
	All Property Except Utilities	Local Property of Public Utilities	Public Utilities Allocated by State	Net Proceeds (Oil and Gas)	Gross Proceeds (Coal)	Total
Rosebud County						
Fiscal year 1976	$15,346,060	$13,829,219	$2,173,598	$9,290,878	$ 2,318,240[a]	$ 42,957,995
Fiscal year 1978	19,340,000	37,399,000	2,200,000	9,300,000	20,668,800	88,907,800
Fiscal year 1980	20,656,000	80,499,000	2,200,000	9,300,000	25,393,500	138,048,500
High School District 19						
Fiscal year 1976						$ 24,181,043
Fiscal year 1978			Detail Not Available			48,705,700
Fiscal year 1980						92,336,700
Elementary District 19						
Fiscal year 1976						$ 22,393,341
Fiscal year 1978			Detail Not Available			46,734,800
Fiscal year 1980						90,163,700

[a]Taxable value of net proceeds from coal operations for 1976.

Sources: Table 8 and information from the Montana Power Company.

IV and its Western Energy properties. In 1980, Colstrip I, II and III are assumed to be completed and Colstrip IV almost completed. Also, a $25,393,500 valuation of gross proceeds from coal mining operations at Colstrip in 1980 will replace the $2,318,240 valuation for net proceeds in fiscal 1976.

An even higher percentage growth in taxable valuations for the Colstrip school districts has been projected: the high school district's valuation is expected to almost quadruple (up 282 percent to $92.3 million) and the elementary district should have a 1980 taxable valuation four times that of fiscal 1976, or just over $90 million.

Rosebud County

We have projected property tax revenues for fiscal 1980 in Rosebud County and the Colstrip school districts based on the mill levies recently approved for fiscal 1976 and the taxable valuations projected in table 24. Assuming that 95 percent of the taxes levied will be collected, we project that total county revenues from the property tax will be $9.1 million in fiscal 1980 (table 22). The amount for county operating expenses--the figure we are most concerned with--would be just under $3 million ($2,996,700). In addition, the county will have $666,500, its share of the Coal Mines License Tax, to use as it determines.

Of course, not all county revenue comes from taxes; in fiscal 1974-75, Rosebud County received some $776,258 for county operating purposes from automobile registrations, land rentals and royalities, interest and penalties, federal revenue sharing, and other gifts and grants, etc. (table 7).[31] Assuming that this figure remains unchanged (although certainly

[31]The $776,258 represents the sum of the last eight items in table 7, less the grants for airport construction and the hospital described in footnote a. The $107,348 in revenue sharing funds spent for a new grandstand was not deducted, because these are discretionary funds and could have been used for operating expenses.

with increased population and the new state programs it might be expected to increase), total revenue available to Rosebud County for county operating purposes assuming current mill levies would be $4,439,458. Table 25 compares this figure with the projected expenditures of $2,142,000 for county purposes in fiscal 1980, and also calculates the mill levy necessary (5 mills) to provide funds for county government operation. The 5-mill figure compares with 22.85 in fiscal 1976; at its low point back in fiscal 1963, the levy was 16.75 mills (table 9).

We are not saying that the mill levy for county government purposes in fiscal 1980 will be only 5 mills. Many things could change; we cite the most obvious examples. First, given the large tax base, taxpayers might demand more or better services than we have allowed for (perhaps more money will be spent on roads), or new state laws might alter the county share of the Coal Mines License Tax. Second, we have expressed projected expenditures in constant, 1975 dollars, and the cost of goods and services that county government buys may well increase faster than property valuations between fiscal 1976 and 1980. Depending upon assessment practices, some property tax valuations may be slow in reflecting increases in property values due to inflation. The gross proceeds tax should be an exception to this, and the coal mines license tax, based on the selling price, also should be inflation-proof. There may be some lag, than, in the property tax response to inflation and that would make slightly higher mill levies necessary. Since one mill in fiscal 1980 will raise $138,000 at 1975 valuations, an amount equal to 6 percent of total expenditures, we do not see this as a great problem. And third, we have not dealt with funds for capital expenditures. The county needs a new jail; in the future it may need additional hospital beds or other new

Table 25

Summary of Projected Rosebud County Revenues and Expenditures for County Operating Purposes With Examples of Mill Levies Necessary for Possible Capital Expenditures Fiscal Year 1980

Potential revenue for county operating purposes, assuming 1975-76 property tax levies and nontax revenue equal to 1974-75 amount:

Property tax (22.85 mill levy).	$2,996,700
Coal mines license tax	666,500
Nontax revenue	776,258
Total revenue	$2,142,000
Projected expenditures for county operating purposes	$2,142,000

Property tax levy necessary to raise projected expenditures for county operating purposes:

Projected expenditures	$2,142,000
Less nontax revenue	776,258
Less coal mines license tax revenue	666,500
Balance to be raised by property tax	$ 699,242
Projected value of one mill	$ 138,048
Mill levy required	5 mills

Property tax levy necessary to make payments on bond issues for capital expenditures:

Assuming $3 million bond issue	1.8 mills
Assuming $5 million bond issue	3.0 mills

facilities. We have not estimated what indebtedness the county might have incurred by fiscal 1980. We do point out that a 1.8-mill levy that year would handle payment on a $3 million 20-year bond issue at 6.5 percent and a 3-mill levy would handle a $5 million issue. State assistance through the local impact fund also may be available for capital expenditures. We conclude that the county should be able to make any necessary investments without financial strain, and provide an adequate level of services for its citizens.

Colstrip School Districts

The Colstrip school districts currently are recovering from the effects of a construction cycle which resulted in overcrowding and rather high mill levies. They began the 1975-76 school year with comfortable reserves and the lowest mill levies in years plus the expectation that enrollments in the next year will decline as construction activity on Colstrip I and II ends. A recently-approved bond issue will finance a new elementary school and a renovated high school making it possible to accommodate the enrollment anticipated when Units I and II are in production.

But if Colstrip III and IV are approved, a new round of temporary construction-induced enrollment increases will begin. The number of students at the peak, in 1979-80, could be as high as 1,100, compared to about 700 in the fall of 1975. The Colstrip districts will again have some serious planning to do to decide how to handle a temporary enrollment increase of such magnitude, as well as the larger permanent enrollment created by plant and mine operation.

The most likely alternatives in handling the temporary increase appear to be mobile classrooms, use of the old elementary school, or double shifting. None of these is a really satisfactory solution. The extent of

the problem will depend largely on how well the district is able to predict enrollments and provide timely expansion of temporary classroom space.

We have assumed that new construction will be necessary to accommodate the permanent increase in enrollment, and have allowed for that in our estimates in table 26.

Table 26 indicates that the tax base will be adequate to provide the funding necessary to handle the situation well in terms of teachers and services plus the payments on two bond issues, at a combined levy of 16.19 mills, one mill below the 1975-76 rate and well below any other, recent year (table 9). Even if property valuations lag somewhat with respect to inflation, levies should remain low. (A large proportion of the districts' tax bases consist of gross proceeds, which can be expected to move upward with inflationary pressures.) What the cost of temporary housing will be will depend upon how the problem is handled; we do not think taxpayers will find this burden intolerable. It is likely to create more temporary social problems than fiscal problems. We should note again that assistance will be available from the state, through the local impact and education trust fund. And if the mill levies do inch up above those we have estimated, Colstrip district residents may take comfort in the fact that once the construction bulge is over, their districts will be among the most wealthy in the state on a per pupil basis.

Summing up

What might the total tax burden for Colstrip school district residents be in 1979-80? We offer the following estimate:

Table 26

Summary of Projected Colstrip School District
Revenues and Expenditures, for Operating
Purposes and Retirement of Bond Issues
Fiscal Year 1980

	Elementary School	High School
1975-76 property tax mill levy	8.98	8.20
Potential revenue from district sources, 1979-80, assuming 1975-76 mill levies	$809,670	$757,160
Projected expenditure of district funds, total	$841,430	$633,400
Operating	591,430	493,400
Debt retirement		
1975 bond issue	160,000	90,000
Subsequent bond issue	90,000	50,000
Projected value of one mill	90,164	92,337
Mill levy necessary to raise district funds		
Operating	6.56	5.34
Debt retirement	2.77	1.52

State levy		9.50
County levy		47.00
Operations	5.00	
Debt retirement	2.00	
School levy	40.00	
High school district		6.86
Operating	5.34	
Debt retirement	1.52	
Elementary school district		9.33
Operating	6.56	
Debt retirement	2.77	
Total state, county, and district levy		72.69

These figures assume a state levy the same as in fiscal 1975-76; county operating levies as described in preceding pages; an allowance for payments on a $3 million county bond issue for capital outlays; mandatory county school levies of 40 mills; and district 19 high school and elementary levies as described above. The total of these levies is smaller than for any year in the 1960s and 1970s, as shown in table 9, and approximately one-half the 1968-69 levy.

FINAL REMARKS

We conclude that Rosebud County and the Colstrip school districts face no really serious fiscal problems should Colstrip Units III and IV be constructed. The tax base will be large enough to keep mill levies low even though county government and the local districts must again provide an increased volume of services.

We remind readers that this report is quite limited; other municipalities (especially Forsyth) and other school districts in Rosebud County will feel some effects of additional coal development and we have not dealt with those effects. We might note that the huge increase in the county property tax base should more than compensate for any increased burden of school financing

at the county level and may well result in contributions to the state equalization fund. (Present law requires that all counties levy 40 mills for schools and turn any excess over to the state. See page 35 of this report.)

Our assumption throughout has been that the services provided by Rosebud County and the Colstrip schools would be at or slightly above the traditional level--by some standards this means rather limited services.

We have noted that Colstrip is an unincoporated company-owned community, and that The Montana Power Company and Western Energy wish to end their ownership. Should Colstrip become an incorporated community before 1979-80 (probably not likely), taxpayers within its corporate boundaries would be subject to city taxes in addition to county and school levies.

And finally, we have given no attention to nonfiscal problems which additional construction and coal activity might create. Such problems no doubt will occur, but they are outside the scope of this report.